FINANCIAL TIMES

World Business Newspaper

MONDAY JANUARY 22 1996

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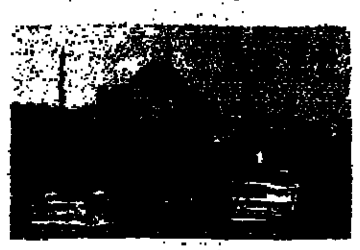

Turkey and the EU

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Italian government crisis deepens as Dini is blocked

Prospects of a quick solution to Italy's government crisis evaporated over the weekend as the right-wing National Alliance (AN) refused to endorse the continued premiership of Lamberto Dini. The tough line taken by AN, as Italy attempts to form its 55th postwar government, threatened a serious split in the parliament's rightwing grouping headed by Mr Silvio Berlusconi, the former premier. Page 2

Brussels set to approve $3bn bank aid: The European Commission is this week expected to approve a FFr15bn ($3bn) state aid package for Comptoir des Entrepreneurs, the specialist French property bank, which has submitted extensive restructuring plans in return for approval of a government-assisted rescue. The huge restructuring involves abandoning all the bank's activities outside France. Page 14

Mexico to bail out companies: The Mexican government is poised to rescue some of the country's largest and most heavily indebted companies in an effort to avert the threat of large-scale corporate defaults. Page 14

Doubt cast on US federal debt deal: An unconditional extension of the federal debt ceiling could not pass the House of Representatives, Congressman Dick Armey, its majority leader, asserted. Contradicting other senior Republicans, Mr Armey said any debt ceiling bill, which would enable the US government to avoid default, should come attached with other aspects of the Republican agenda. Page 3

Chechens pledge to free captives: Chechen rebels promised that tomorrow they would free most of the hostages they seized in a raid into southern Russia. The rebels smuggled the hostages to Chechnya last week when they escaped the four-day attack on Pervomaiskoye by Russian forces.

Iraq woos UN again over oil exports: The international oil industry is contemplating whether Baghdad's latest overture to the United Nations will result in the first Iraqi oil to reach world markets in more than five years. A visiting French MP said Iraq was determined that talks with the UN on limited oil sales would succeed. Page 4

Big increase in world drug sales: World drugs sales for the first 11 months of 1995 surpassed the total for the whole of 1994, with sales in the world's 10 biggest markets up 8 per cent to $125.7bn. Page 4

Kirch group, one of Germany's largest media organisations, is to join a consortium headed by rival Bertelsmann to develop a pay-per-view standard decoding box which will allow the launch of digital television this year. Page 15

Forte, the UK's largest hotels company, claimed the support of holders of at least 35 per cent of its shares as its £3.5bn ($5.4m) bid battle with Granada, the UK leisure, TV and catering group, moved to a climax. Page 15

TI wins ruling in US fraud test case: TI Group, the specialist UK engineering and aerospace components manufacturer, has won an important legal ruling in New York in its test-case fight against a $60m fraud action brought by the US Justice Department. Page 15

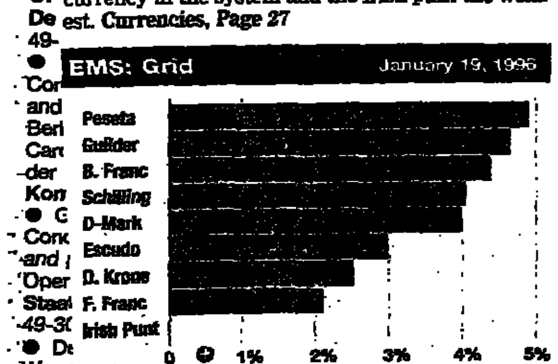
Bosnia war crimes evidence: US envoy John Shattuck toured suspected mass grave sites near the eastern town of Srebrenica in Serb-held Bosnia. He said there was "overwhelming evidence" of "horrible crimes against humanity". In one village, Glogova, 2,000 bodies are believed to have been buried. Nato evasive, Page 3

Recovery for UK rail rolling stock: UK train operating companies are poised to resume ordering new rolling stock after a gap of more than two years. Page 5

Vibrations slow P&O flagship liner: The Oriana, the £200m ($304m) flagship of the P&O fleet of cruise liners is have a new set of propeller blades because of vibration at high speeds. Page 5

Cricket: England lost last of their one-day matches against South Africa, who took the series 6-1. The tourists were all out for 154 at Port Elizabeth in reply to South Africa's 218 for nine.

European Monetary System: The D-Mark ended last week on a weak note against other major European currencies as the dollar advanced against the German currency in the run-up to Saturday's meeting of finance ministers from the Group of Seven leading industrial countries. There were no changes of position on the ERM grid over the week, with the Spanish peseta remaining the strongest currency in the system and the Irish punt the weakest. Currencies, Page 27



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

[illegible]	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
[illegible]	Sch37	Greece	Dr400	Lux	LFr65	S.Arabia	SR12
[illegible]	Dn1.250	Hong Kong	HK$30	Malta	Lm0.65	Singapore	S$4.30
[illegible]	BFr75	Hungary	Ft250	Morocco	MDh16	Slovak Rp	Sk65
[illegible]	Lv130.00	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
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[illegible]	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
[illegible]	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
[illegible]	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£95.00
[illegible]	EY 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
[illegible]	FM15.50	Kuwait	Fils650	Portugal	Esc250 (mainland)	Turkey	L70,000
[illegible]	FFr11.50	Lebanon	US$1.50	[illegible]	Esc260	UAE	Dh12.00

Spanish yard may build aircraft carrier for China

Proposed boost to Beijing naval power set to trigger international controversy

By David White in Madrid

A Spanish state-owned shipyard is to hold exploratory talks on construction of an aircraft carrier for China. The proposal is likely to stir international controversy since it would mean a significant addition to Chinese naval power.

Mr Eduardo Abellán, chairman of Bazan, the warship builder, is due to present the project during a visit to China starting today.

He indicated the Chinese might be interested in a vessel similar to an 11,500-tonne aircraft carrier for the Royal Thai Navy which was launched at the weekend in Ferrol, north-west Spain. It is the first time any country has built an aircraft carrier for a foreign navy.

China has been rumoured for some time to be seeking to build or purchase an aircraft carrier capability, as part of a military modernisation drive. China lacks a "blue water" navy, and thus an ability to project power beyond its coastal areas. Chinese defence planners have long coveted such a capability, but have hesitated because of the cost.

But China's growing economic power, its increasing importance in world trade, and its regional leadership ambitions are factors certain to be weighing heavily in Beijing's calculations about defence modernisation in the next century.

Acquisition of a carrier could raise tension over the disputed Spratly islands in the South China Sea, where China, Taiwan, Vietnam, the Philippines, Malaysia and Brunei all have claims. No south-east Asian country currently operates an aircraft carrier.

Bazan managers said they were counting on the Thai deal to generate more contracts in the region since the new carrier, due for delivery next year, would create an imbalance in naval forces.

The Spanish company won the $358m Thai contract in 1992 after reported reluctance by the German government to let the Bremer Vulkan shipyard carry out the job. British, French, Italian and US shipbuilders also bid for the contract. Bazan says it won partly on cost, but also on production techniques enabling it to finish the ship in less than five years.

Managers say they could offer China a similar price including combat systems and logistic support. A Chinese carrier could be in operation early next century.

The Thai vessel Chakri Naruebet, which is 70 per cent complete, is due to carry AV-8 Harrier jump-jets bought from the Spanish navy, as well as helicopters. Designed for a crew of 601, it is only the second carrier Bazan has built, and is modelled on the Spanish flagship Príncipe de Asturias. The vessel, adapted to perform a disaster relief role in peacetime, has space for a vertical launch missile system.

Bazan needs to fill a trough in the workload for its 4,000 workers at Ferrol after 1997. It is waiting for a decision by South Africa on a R1.5bn ($410m) project for four corvettes. But the contract, for which Yarrow Shipbuilders, part of the British GEC group, is also competing, has been long delayed. Mr Abellán said a Spanish navy order for four frigates would probably be placed before the country's general election in March.

Extra funds for Fokker likely to be ruled out

Daimler-Benz to decide fate of its Dutch subsidiary today

By Wolfgang Münchau in Frankfurt

Daimler-Benz, the German industrial group, is expected to rule out a capital increase for Fokker, its troubled Dutch regional aircraft subsidiary.

Barring a last minute reprieve, Fokker, a pioneer of the European aerospace industry, would then be left at risk of financial collapse.

A final decision about the future of Fokker, which is being kept afloat by short-term bridging finance from Daimler-Benz, is to be taken at an emergency supervisory board meeting in Stuttgart today. The meeting follows the breakdown on Friday of talks with the Dutch government, which refused to participate in a capital increase, as had been requested by Daimler-Benz.

The tough stance taken by Daimler-Benz marks an increased readiness to get rid of loss-making subsidiaries, and may even signal the first stages of a long-term retreat from the aircraft and defence business.

A pull-out would cost the German company several billion D-Marks.

Increasingly radical restructuring efforts are likely to have a profound impact on Daimler's 1995 results. Internal company projections put the full-year loss at DM2.3bn ($1.5bn), as well as about DM200m arising from the reorganisation of AEG, according to a report in today's issue of Der Spiegel, the news magazine. Daimler-Benz yesterday refused to confirm or deny the figures.

According to the report, the total 1995 loss, including future loss provisions for Fokker, could run to DM5bn, making it the biggest non-fraudulent ordinary loss in German corporate history.

Mr Jürgen Schrempp, chairman, acknowledged yesterday the 1995 results would be affected by "old problems", adding that the restructuring decisions would "create the foundation for solid profits in 1996". He refused to indicate publicly what recommendation about Fokker he would put to the supervisory board today, but said that "getting rid of sources of losses has absolute priority currently at the Daimler-Benz board".

Within Daimler-Benz it is widely thought that a decision to pull out of Fokker would be the most likely outcome of today's meeting.

Today's decision will have

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Editorial Comment, Page 13; Lex, Page 14; Fokker looks for a way to keep in the air, Page 17

Yassir Arafat celebrating his landslide victory in the race to be president in Palestine's first national elections. However a number of candidates, handpicked by the veteran leader, suffered defeats. Pollsters estimated 30 critics of Mr Arafat could be elected to the legislative council. Report, Page 14; Not all votes go Fatah's way, Page 4 Picture: Reuter

Goldman Sachs partners reject flotation scheme

By Maggie Urry in New York

Months of intense speculation on Wall Street were ended yesterday when Goldman Sachs, the investment bank, decided to retain its 127-year-old partnership structure, rejecting a plan to sell shares to the public.

The decision was taken at a weekend meeting of almost all the 174 partners.

Many had thought that the firm, the last large partnership on Wall Street, would seek a flotation to bolster its capital base, depleted by losses sustained in the disastrous financial markets – particularly US bonds – of 1994, and to allow partners to take cash out.

However, a marked recovery in profits in 1995 and a continuing good performance in the early weeks of the current year gave the firm more flexibility to retain its existing capital structure.

According to partners who attended the meeting, held at a conference centre outside New York city, there was a strong consensus to retain the existing capital structure. The meeting did not have a firm proposal for a public offer before it, but was a regular annual meeting at which a number of issues, including the firm's capital structure, were raised.

Partners played down suggestions of divisions between more recently elected and longer serving partners, who stood to gain more by a flotation. One partner said he had never seen the partnership so united in favour of continuing in its present form.

Goldman Sachs has gone through the same discussion five times in the past 25 years, each time deciding not to float. Over the same period, all the other leading securities houses have gone public or become part of larger, quoted companies.

Goldman Sachs is now unlikely to discuss the issue again for several years. It is not expected to seek further outside capital in the near term.

Mr Jon Corzine, Goldman Sachs' senior partner, said last month that the partnership structure had served the firm well over the years and that it had not found its capital structure a constraint on its business. He said: "Every time the partnership has chosen to stay in its current structure and gone on and been very successful in the years following."

Since 1986, one occasion when Goldman Sachs considered and rejected a firm proposal to float, the firm has brought in outside capital.

That year Sumitomo Bank of Japan invested $500m in return for a share of the profits. Later, private placements of the quasi-equity were made with insurance companies. And in 1992 a Hawaiian educational trust, the Kamehameha Schools/Bishop Estate, invested $250m in equity, doubling that amount in November last year.

G7 ministers shrug off fears of long economic slowdown

By Robert Chote and Graham Bowley in Paris

Fears that the world economy might suffer a prolonged slowdown were shrugged off at the weekend by the finance ministers and central bank governors of the Group of Seven leading industrial countries.

Meeting at the French finance ministry in Paris, the G7 ministers predicted stronger growth later this year, helped by lower interest rates and a higher dollar. They played down the current weakness of economic activity in Europe and, to a lesser extent, the US.

The G7 welcomed the rise in the dollar in recent months. Mr Jean Arthuis, French finance minister, said he hoped the dollar would now strengthen against European currencies by as much as it had against the Japanese yen.

The desire for a rise in the dollar relative to the D-mark was widely shared at Saturday's meeting. Mr Hans Tietmeyer, Bundesbank president, said US interest in a stronger dollar was "very important for the world economy and a very important development". However, market analysts doubt whether the G7 will take the concrete steps needed to further bolster the US currency.

On economic growth, the G7 took a sanguine view of the current slowdown. "We agreed to maintain the direction of our policies geared towards sustaining growth and employment and, where necessary and appropriate, towards reinforcing recovery," the ministers said in a statement.

"The general view was that we would be seeing an uptick certainly no later than the second half of the year, and perhaps earlier," said Mr Paul Martin, Canadian finance minister, after the meeting.

The ministers also emphasised the importance of continued efforts to rein in government borrowing and structural measures to bring unemployment down further. There was a lengthy discussion on the need for labour reforms, ahead of the planned meeting of finance and employment ministers in Lille, France, on April 1.

"The rigidity of European labour markets has been long recognised as an important cause of weak growth in Europe," said Mr Theo Waigel, German finance minister. Germany and other European countries are concerned by the impact on employment of the high social costs which employers have to bear.

Mr Michel Camdessus, managing director of the International Monetary Fund, told the meeting that the current slowdown in European economies was only a "growth pause". He said the German economy would rebound in

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CONTENTS

German jobs deal in the making

By Andrew Fisher in Frankfurt

German employers and trade unions expressed confidence at the weekend that talks tomorrow with the Bonn government on combating the country's stubbornly high unemployment would produce results acceptable to both sides.

In return for union agreement on pay restraint, the government is expected to give details of its proposed programme for cutting personal and company taxes and reducing the share of incomes and profits taken up by social security contributions. The changes, to be implemented up to the year 2000, would be financed by removing tax privileges.

The basis for tomorrow's talks is the proposal by IG Metall, the giant engineering union headed by Mr Klaus Zwickel, that industry create 330,000 jobs over three years in return for wage moderation. Despite employers' resistance, signs of a compromise emerged last Thursday in a second round of talks between the union and Gesamtmetall, the industry employers' federation.

Mr Zwickel's "alliance for jobs" proposal has been welcomed by Chancellor Helmut Kohl as a basis for helping fight unemployment. Mr Bernhard Jagoda, head of the Federal Labour Office, said agreement on such an alliance could keep average unemployment "well below" the average of almost 4m people he had forecast previously. It was "not unrealistic" to expect the alliance to create jobs.

Mr Hubertus Schmoldt, head of IG Chemie, the chemical industry trade union, also expected the talks to be fruitful. "I think the Chancellor wants this alliance. We want it, too. So I expect we shall reach agreement even on Tuesday on key numbers."

While his union was willing to discuss a tightening up of sick pay and early retirement rules, Mr Schmoldt said companies had to be more energetic in developing new products and training people.

Also favouring a jobs alliance was Mr Dieter Hundt, chosen last week as the next head of the German employers' federation (BDA). He hoped this could take effect this year, although not just on the terms proposed by Mr Zwickel. The BDA wanted the maximum length of fixed-period employment contracts to be lengthened from 18 months to two years or more.

Mr Norbert Blüm, labour minister, said pay restraint was vital to curb industry's costs and help create jobs. Each 1 per cent rise in wages cost the economy DM18bn ($8bn), he said. This was far more than could be saved by cutting unemployment pay or pensions.

New Greek PM gives top cabinet jobs to pro-European Union allies

Simitis strengthens EU hand

By Kerin Hope in Athens

Mr Costas Simitis, Greece's prime minister-elect, yesterday named a cabinet in which his two closest pro-European allies will have a prominent role.

The post of foreign minister went to Mr Theodoros Pangalos, a former European affairs minister, who gave vociferous support to Mr Simitis's campaign to reform the governing Socialist party.

Ms Vasso Papandreou, a former European Commissioner, takes charge of a new "super-ministry" for development, which will try to speed up disbursement of European Union grants to Greece, expand the privatisation programme and promote domestic and foreign investment.

Ms Papandreou is Greece's most popular politician, according to opinion polls, but until now had refused to join the Socialist government. She backed Mr Simitis in calling publicly for the retirement of Mr Andreas Papandreou, who resigned last week as prime minister because of ill-health. She is not related to the former premier.

The new cabinet, to be sworn in today, also reflects the new prime minister's concern about keeping the political balance between reformers and leaders of the populist wing in the Panhellenic Socialist Movement.

He allowed Mr Akis Tsochatzopoulos, public administration minister, and Mr Gerasimos Arsenis, defence minister, to keep their jobs. Both represent populist factions and were unsuccessful candidates for the post of premier.

Mr Simitis has only a few months in which to consolidate his position before Pasok holds a party congress to vote in a new party chairman, an election he must win in order to remain prime minister. He is likely to face party opposition over plans to reorganise the inefficient bureaucracy and overhaul state corporations.

The Socialists' economic team was left unchanged. As well as backing Mr Simitis in the race for premier, Mr Yannos Papantoniou, the economy minister, has taken credit for reducing inflation last year to single digits after 20 years and for balancing the budget.

Close associates of Mr Papandreou, among them the health minister who was also his personal physician, and the sports minister who is related to his wife, Dimitra, were dismissed. However, Mr George Papandreou, the former prime minister's son, kept his post as education minister.

Mr Simitis sacked two ministers with a controversial past: Mr Sifis Valyrakis, the public order minister, who was accused of having links with terrorist groups in the 1980s, and Mr Alexandros Akrivakis, the agriculture undersecretary, who had faced charges related to a bank embezzlement scandal that brought down a previous Socialist government.

Italy's government crisis deepens

By Robert Graham in Rome

The prospects of a quick solution to Italy's government crisis evaporated over the weekend as the rightwing National Alliance (AN) refused to endorse the continued premiership of Mr Lamberto Dini.

The tough line taken by AN threatened a serious split in the parliament's rightwing grouping headed by Mr Silvio Berlusconi, the former premier. President Oscar Luigi Scalfaro, charged with finding support for a new government in a parliament where the rightwing grouping is almost evenly balanced with the centre-left, is clearly irritated and has given Mr Berlusconi until midweek to resolve these differences.

The problems of forming Italy's 55th post-war government damped down the wave of optimism evident last week as the main political parties seemed set on avoiding early elections and agreeing a renewed mandate for Mr Dini.

In a separate move but also likely to have an impact on the financial markets, Mr Antonio Fazio, the central bank governor, ruled out any change in interest rates until inflation appeared under firm control. This killed speculation that a strengthening lira and increased confidence in the economy would lead to an early cut to bring Italy more into line with its EU partners.

Mr Fazio, speaking in Florence on Saturday, also warned that the recently approved 1996 budget would miss its targets for reducing the deficit unless additional measures were introduced in the spring.

His warning about the weakness of the budget, coupled with his firm orthodoxy on interest rates, is likely to complicate the task of the next government when it is eventually formed.

The divisions within the Berlusconi camp emerged on Saturday when President Scalfaro held his second – and supposedly final – round of consultations following Mr Dini's resignation on January 11. Mr Gianfranco Fini, the AN leader, refused to back Mr Dini and called instead for the government to be headed by an "institutional" figure like Mr Carlo Scognamiglio, the Speaker of the Senate.

He also expressed great scepticism about Mr Berlusconi's ability to reach a viable agreement with the centre-left alliance on a government that would institute a major reform of the Italian state. These differences had been evident all last week, but until the weekend Mr Berlusconi had appeared confident they could be overcome.

President Scalfaro will begin his third round of consultations late Wednesday or on Thursday. In a special address on television on Saturday night, he said the next government must be one that was capable of carrying out a significant overhaul of the Italian state with a broad base of support across the political spectrum. If there was no agreement on this, he would be obliged to dissolve parliament and call an election.

The common ground between Mr Berlusconi and his opponents in the centre-left alliance, dominated by the Party of the Democratic Left, is a desire to avoid an early election. But if Mr Fini refuses to soften his stance, Mr Berlusconi will have to accept a formal split in his alliance and lose his most important ally. Alternatively, if he stays with Mr Fini, he risks losing the support of the small centre parties and even the moderate wing of his own Forza Italia movement. In either case it would be hard to postpone a poll after the end of the Italian EU presidency in June.

EU shrugs off presidency problems

By Lionel Barber in Brussels

Mr Lamberto Dini, Italy's caretaker prime minister in charge of a non-government, today chairs a meeting of European Union finance ministers in Brussels, the first since Italy took over the rotating EU presidency on January 1.

The presence of Mr Dini, a former central banker appointed a year ago by a non-elected Italian president, may encourage critics who claim that technocrats – not politicians – are running the show in Europe.

"Dini is the embodiment of the democratic deficit," says one EU diplomat, while paying tribute to the Italian prime minister's political skills.

Italy's New Year government crisis has provoked bemusement and resignation in Brussels. The general verdict for the Italian presidency, which ends on June 30, is: embarrassing but manageable.

"We've been through 50 or more Italian governments since World War II," said one Commission official, "so this is nothing new. We've learned to cope."

So has the Italian bureaucracy. Most of the Italian presidency's programme was planned well in advance. Much is unfinished business from the previous Spanish and French presidencies of 1995, such as reform of the wine market and the setting up of the Europol police intelligence agency.

The high-point is the EU summit in Turin on March 29-30 which will launch the inter-governmental conference to review the Maastricht treaty.

Italy, a founder member, would dearly like to make an imprint on the IGC. The message is Italy needs Europe in terms of open markets and political stability; but also that Europe would suffer if an unstable Italy slipped, metaphorically, into the Balkans or North Africa.

The Italian plea is directed chiefly at France and Germany, the two countries most often associated with plans for a group of integrationist-minded countries to build a "hard-core" Europe around monetary union. Yet relations with both countries are strained, particularly with France.

Mr Dini has been feuding with President Jacques Chirac ever since he took office, first because of the French leader's criticism of the weak lira and then because of his fury at Italy's United Nations vote against French nuclear tests.

Mr Dini also does not have much time for Mr Theo Waigel, the German finance minister, who last year wrote off Italy's chances of being among the first wave of EU countries to join the single currency on schedule in 1999.

Whether Mr Dini today can resist alluding to Germany's failure to meet Maastricht's 3 per cent public deficit target for 1995 is a matter of diplomatic suspense. He will certainly touch on the need to do more to arrest the cancer of unemployment in Europe.

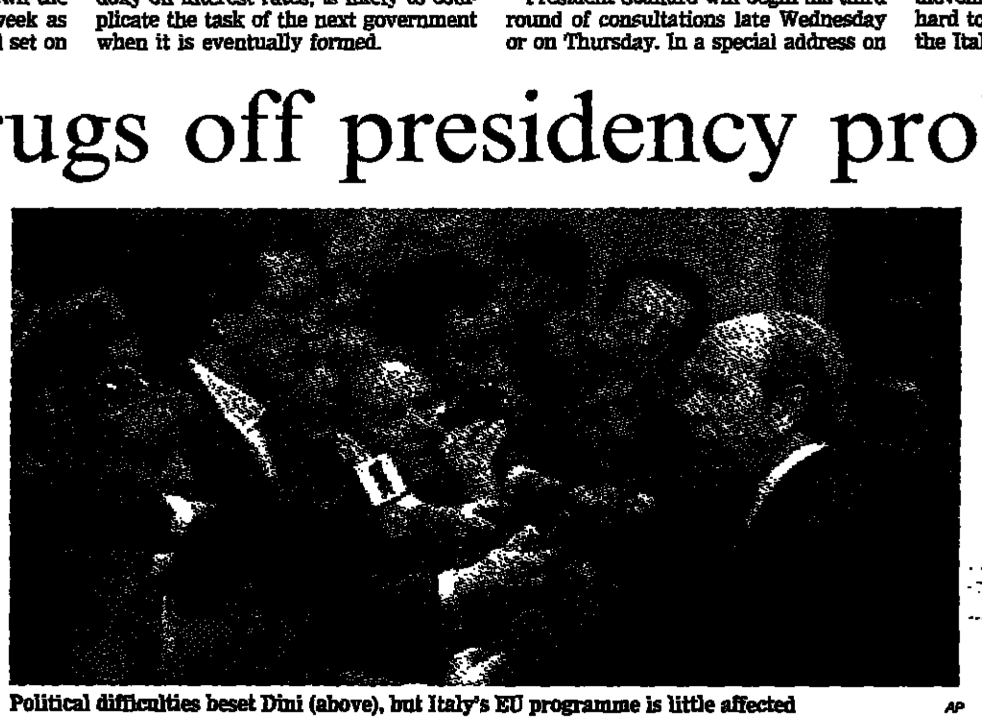
Italy's wider problem is that its political crises have weakened its hand in the EU, feeding an inferiority complex which was laid bare during the Bosnian conflict last year.

Italy, a Nato member, complained at being excluded from the "contact group" (US, Russia, France and Britain) which was leading diplomatic efforts to reach a settlement. When the US-led strategy switched to blasting the Bosnian Serbs to the negotiating table, the Rome government pointedly barred US Stealth bombers from its territory.

The episode has prompted fears that the Italian presidency may have problems organising the international donors' conference in March to finance reconstruction in Bosnia. This conference must also dovetail with the work of Mr Carl Bildt, the internationally agreed representative charged with overseeing the Bosnian peace process.

Also in the area of foreign relations, aside from the EU-Asia summit on March 2-3, much of the presidency's work is follow-up to earlier initiatives. These include EU-US co-operation, last November's Barcelona conference on the Mediterranean, and talks on new co-operation agreements with Egypt, Lebanon and Jordan. Throughout, the Italians will be able to call not only on the Commission, but also the secretariat of the Council of Ministers, whose legal and political expertise will be needed for the IGC.

Nor should one overlook Mr Luigi Calvachini, Italy's EU ambassador. He only arrived in Brussels last October but has spent most of his 35-year diplomatic career on EU affairs. Born in Turin, he comes from an old Piedmontese family which has provided military men, clerics, and diplomats for the service of the state – one more sign that the technocratic tradition is alive in Europe.



Political difficulties beset Dini (above), but Italy's EU programme is little affected AP

Opposition's bandwagon rolls in Spain

By Tom Burns in Madrid

Mixing promises to modernise Spain and create jobs with appeals for a return to basic values, centre-right opposition leader Mr José María Aznar yesterday wound up the national congress of his Popular party (PP) confident he would unseat Socialist premier Mr Felipe González in general elections on March 3.

"A great responsibility awaits us. We are prepared for it. We are going to win," Mr Aznar told 3,000 delegates at the end of a three-day congress run on US-convention lines as a launching pad for his candidacy.

Pop songs, a scattering of show business celebrities and tub-thumping speeches from PP leaders turned the congress into a festive endorsement of Mr Aznar's leadership. They served to paper over the absence of concrete PP policies and Mr Aznar's often bland political style.

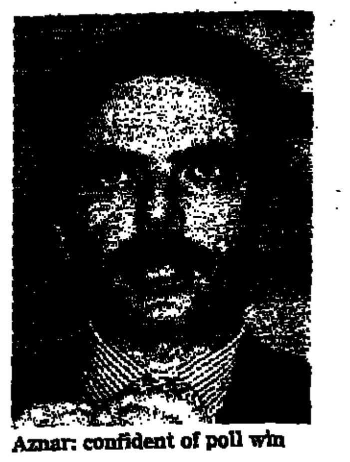
Opinion polls give the PP a lead of between five and nine points over the Socialist party, which has been in power since 1982. Mr Aznar, 42, projected himself as an overdue alternative to Mr González, saying he would provide "reasonable and necessary change".

"We are going to govern without demagoguery, without easy populism. I am determined not to gain a single vote by trickery, by covering up [issues] or with irresponsible promises," Mr Aznar said. He nevertheless pledged something for everybody, promising to back business and negotiate agreements with unions, to lower the national deficit and maintain the welfare state.

Party speakers had a field day by listing the scandals that have rocked Mr González's administration since he won a fourth term as premier, although short of a majority, in 1993 and by attacking the government's economic record. Spain has double the European Union's unemployment rate and meets none of the EU's criteria for monetary union.

Mr Aznar presented a broad political platform that aims to bring decency back into public life, stimulating "the moral sense of individual responsibility", and encouraging "a patriotism born of the knowledge of Spain, of its history and of the love of its lands".

The package mixed Gaullism and "one nation" British Toryism with calls for ethical and generational renewal that echo those of UK Labour leader Tony Blair. Arguably the most potent electoral factor favouring Mr Aznar is that he offers a youthful and united party to voters who have grown weary of long-standing corruption allegations that have enveloped Mr González's administration and with evidence of increasing divisions within his Socialist party.



Aznar: confident of poll win

Union loosens communist tie

By David White in Madrid

Spanish trade unionism entered a new era at the weekend when the Workers' Commissions labour confederation distanced itself from the Communist party. The confederation voted out its charismatic president and former secretary general, Mr Marcelino Camacho.

In a bitter and sometimes angry meeting, Mr Antonio Gutiérrez, who took over from the veteran Mr Camacho as secretary general of the confederation in 1987, won the backing of 66 per cent of delegates, with 32 per cent against, for his independent line.

The 78-year-old Mr Camacho, a symbol of the struggle for union rights during the Franco regime, when he suffered both exile and imprisonment, was instrumental in building up the union from the early 1960s. He had recently backed a "critical" faction of Communists pressing for a more combative stance and moves towards a 32-hour working week. This faction, led by Mr Agustín Moreno, won seven seats on the 20-member union executive but was excluded from key posts.

Mr Gutiérrez, 44, who stopped taking an active party role after becoming union leader, and who last month attacked the Communist leadership for interfering in union affairs, said he would strive for unity with the other main labour body, the Socialist-oriented General Workers' Union (UGT). The UGT severed formal links with the governing Socialist party in the late 1980s.

Mr Gutiérrez yesterday broke new ground by attending a congress of the centre-right Popular party, which has promised to seek a pact with employers and unions if, as expected, it wins the general election in March.

The landmark union meeting came shortly after an agreement between the two main union federations and employers on a compulsory arbitration system aimed at reducing the number of strikes.

Soviet shadow is cast over Poland

Accusations that prime minister Jozek Oleksy was a KGB spy threaten to cloud the new president's strategic vision for his country's role in Europe

President Alexander Kwasniewski spent last week in Brussels enthusiastically promoting his strategic vision of a future Poland – prosperous within the European Union, secure within Nato and ready to act as Europe's honest broker in dealing with a suspicious Russia.

This week he is back in freezing Warsaw for the start of a politically fraught week which could culminate in the resignation of Mr Jozef Oleksy, his prime minister, and upset the new president's desire to play a constructive role in Europe.

Much hinges on the Warsaw military prosecutor. He has to decide by Wednesday whether there is sufficient evidence to open formal treason proceedings against Mr Oleksy as an alleged informer of the former Soviet secret service, the KGB, and its post-Soviet successor.

If the prosecutor decides that the accusations made by Mr Lech Walesa, the outgoing president, a few days before leaving office in December are strong enough to stand up in court, Mr Oleksy will be obliged to resign. If not, he will carry on, although his reputation, and that of Poland's political class as a whole, will have been damaged by the affair.

The latest opinion polls show that, up to now, ordinary Poles have tended to dismiss the charges against Mr Oleksy as simply more of the mud-slinging and intrigue which characterised the presidential court during Mr Walesa's tenure. Support for the governing Democratic Left Alliance (SLD) has even increased marginally. The polls indicate that neither the Peasants party(PSL), the junior partner in the current government, nor the Freedom Union (ex-Solidarity) have the support to build the alternative government coalition they are trying to put together to replace Mr Oleksy's.

Thus far, Poland has retained its democratic credibility and stability in spite of the return to power of former communists, reborn as social democrats. The 65 per cent privatised economy is booming. It grew by 6.5 per cent last year and further export and investment-led growth is expected in 1996 against a background of declining inflation. Voters virtually ignored the anti-Semites, rabid nationalists and miracle-seekers among the 44 candidates in the first round of the presidential elections, narrowing the field to a straight fight between Mr Kwasniewski and the one-time Solidarity hero, Mr Walesa, the incumbent.

Sufficient former Solidarity supporters shifted allegiance to bring victory to Mr Kwasniewski, who back in 1993 publicly apologised for the pain inflicted on Poles by the post-war Communist regime. His attempt to clear the air followed the SLD's victory in the September 1993 general elections which ended nearly four years of anti-communist Solidarity government and swept former communists back into power.

But the resurgence of the Russian Communist party in the recent parliamentary elections, and above all the return to key positions in Moscow of hardliners from the old regime such as Mr Yevgeny Primakov, the newly appointed foreign minister, have raised the stakes in the case against Mr Oleksy. The weekly Polish business magazine Wprost has promised to keep up the attack by publishing names of more alleged KGB informers in this week's issue.

The "evidence" against Mr Oleksy was supplied to the Polish counter-intelligence agency by the Russians, and Mr Oleksy complains that he is the victim of a provocation by the security police. Mr Kwasniewski, interviewed in Brussels last week, expressed his personal confidence in the prime minister. He also promised that the Oleksy affair would be dealt with in an open, legal and democratic way and warned against falling prey to "spy mania".

Recalling that Poland had been under close scrutiny from all sides after the rise of Solidarity, he said that former ministers must have met spies among their diplomatic and other contacts. "But if it were true that the KGB, for example, was so clever and so powerful, the Soviet Union should have kept going for another thousand years."

His message in Brussels was that Europe has not fully appreciated the opportunities for reuniting Europe opened up by the collapse of the Soviet empire, the reunification of Germany and the end of the Cold War. He said Poland wanted to take part in constructing "the architecture of a united Europe".

"The real change in Nato will take place when the first ex-Warsaw Pact member joins, bringing with it both intimate knowledge of the old system and of market-based, democratic reform." Above all, he promised, Poland would "bring enthusiasm and energy" to the task of building the new Europe, as well as insight and experience in dealing with Russia.

"We have to persuade the Russians that Nato enlargement is not aimed against them. We have to be very consistent and patient. Poland has no problem with a US-led alliance. We are not naive. Yugoslavia has confirmed Nato as the core of European security. But for many Russians, Nato is still seen as part of the old system directed against the Soviet Union."

One of the questions to be answered this week is whether further investigation of the evidence against Mr Oleksy reveals that Moscow is so opposed to Nato enlargement that it is willing to sabotage politicians whose communist past gives them a unique insight into the fears of ex-Soviet Russia, but at the price of leaving them still vulnerable to accusations of divided loyalty.

Anthony Robinson, Lionel Barber and Christopher Bobinski

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INTERNATIONAL NEWS DIGEST

Hashimoto set for tough test

Mr Ryutaro Hashimoto, Japan's new prime minister, today faces parliament to justify an unpopular government plan to use public money to liquidate bankrupt housing loan companies. Foreign assessments of the stability of Japan's financial system hinge on the success or failure of the plan.

The housing loan company, or *jusen*, bailout will be the keynote of Mr Hashimoto's first policy speech to parliament, to open what will be an unusually combative lower house session stretching to June 19. Mr Ichiro Ozawa, last month elected president of the opposition New Frontier party, plans to embarrass Mr Hashimoto by publicising his part in the companies' injudicious lending while finance minister from 1989 to 1991.

Mr Hashimoto's address, the outline of which was revealed to the Japanese media over the weekend, is otherwise due to emphasise a conservative approach to economic and foreign policies. He is expected to stress continued efforts to stimulate the economy through a sharp rise in public spending. This is included – with the housing loan plan – in the current year's budget, due for agreement early in the new session. *William Dawkins, Tokyo*

Nato evasive on grave sites

Nato yesterday dismissed reports that it would guard mass grave sites in Bosnian Serb-held territory where thousands of Moslems are feared buried.

Admiral Leighton Smith, commander of the Nato-led Implementation Force (Ifor) said: "Nato is not – I repeat, Nato is not – going to provide specific security, or in other words guarantee security, for teams investigating these grave sites." He said Ifor would give help consistent with available forces – as long as it did not interfere with their mandate. But other reports indicated Nato would move to secure the sites. Mr John Shattuck, US assistant secretary of state for human rights, yesterday was due to tour suspected sites near Srebrenica, in eastern Bosnia.

Adm Smith warned that Bosnia's three hostile factions would come under "enormous pressure", including the loss of financial aid, if they did not release all prisoners of war soon.

In Sarajevo, a political row continued to simmer as Bosnian premier Haris Silajdzic announced he would step down. Mandated to form a new Bosnian government, Mr Silajdzic said he was quitting because he was given only five ministers plus one without portfolio instead of six full ministers. The Dayton agreement envisages a Bosnian government with two subsidiary entities: the Moslem-Croat federation, and the Serb republic.

Representatives from Croatia and the Bosnian Serb republic yesterday signed a groundbreaking economic and humanitarian agreement, according to Serbian radio. It called for restoration of trade, road and rail links. *Laura Silber, Belgrade*

Hijack ferry leaves Turkey

A Black Sea ferry carrying freed Russian hostages and crew members yesterday left Turkey for the Russian port of Sochi, after the hostage crisis that strained relations between Moscow and Ankara.

The hostages were liberated on Friday after Turkish authorities reached a settlement with the nine pro-Chechen gunmen who seized the Avrasya ferry three days earlier.

Under Turkey's anti-terrorism laws the hijackers could be imprisoned for up to 15 years, but some observers believed the authorities might take a more lenient line, in view of the strong support the Chechen cause enjoys from Turkish nationalists.

Within Russia's borders Chechen separatists continued to pose a political and military threat to the Russian authorities. The Kremlin, which used military force to end a hostage crisis in southern Russia last week, was embarrassed by continued assertions from Chechen separatists that some of the hostage-takers had escaped, taking some of their captives with them to rebel-held territory. *Chrystia Freeland, Moscow*

Visa move may anger China

Taiwan is expected to seek a transit visa for vice-president Li Yuan-tzu to land in the US, a move likely to re-ignite Chinese anger over what it terms Taipei's "transit diplomacy."

The Taiwanese vice-president will travel to Haiti in early February for the inauguration of the Caribbean country's new president and has requested a transit visa for refuelling in the US.

China protested sharply to Washington when the US, after some deliberation, decided to grant Mr Li a transit visa to refuel in Los Angeles on the way to the inauguration of Guatemala's new president earlier this month.

The latest request will test Washington's ability to balance its fraught ties with Beijing with its policies towards Taiwan. In a review of its Taiwan policy in 1994, the US administration decided that it would issue transit visas to Taiwanese officials. *Laura Tyson, Taipei*

Minister quits over bank crisis

Lithuanian interior minister Romasis Vaitekunas has resigned after intense public criticism of his handling of a financial crisis that shook the Baltic state's banking sector last month.

Mr Algirdas Brazauskas, the Lithuanian president, accused his interior minister of employing strong-arm tactics against the management of Innovation Bank and Litimpeks Bank, the two institutions closed down last month on suspicion of fraud.

On Mr Vaitekunas' orders, the senior executives of the two banks were arrested in high profile stake-outs after the central bank had halted operations at the banks.

Mr Vaitekunas has also been criticised for allegedly withdrawing funds from Innovation Bank, just two days before it was closed. *Chrystia Freeland, Moscow*

Taiwan reaps export orders

Taiwan's export orders rose to $113.55bn in 1995, up 20 per cent from 1994, due to strength in electronics and information technology.

The economics ministry said orders for computers and telecommunications products climbed 41.15 per cent from a year earlier to $15.25bn. Electronics orders were up by 33.9 per cent to $16.31bn. Orders for textiles, another strong performer, rose 21.8 per cent to $15.72bn.

A quarter of 1995 export orders came from the US, Taiwan's single biggest source of orders, rising 11.75 per cent from 1994 to $29.69bn. Export orders are considered an indicator of future economic performance.

Last year's export performance was not matched by industrial production, which rose a modest 4.2 per cent, down from 6.7 per cent in 1994, the economics ministry said. Taiwan's economy is experiencing a slowdown due to troubles in the property and financial sectors. *Laura Tyson, Taipei*

Romanian party gears for polls

Romania's ruling Party of Social Democracy (PDSR) has reshuffled its cabinet in a bid to improve its image in the run-up to local and general elections.

Mr Dan Ioan Popescu, 47, and Mr Alexandru Stanescu, 49, both senior party members, were sworn in as ministers of trade and industry respectively at the weekend. Mr Popescu, formerly deputy industry minister, takes over from Mr Petru Crisan, the former trade minister, who was forced to step down after allegations of corruption.

The reshuffle is the fifth since the minority PDSR government took office in late 1992. Recent opinion polls show the PDSR, a left-wing party dominated by former communists, sharing the lead with the Democratic Convention, a coalition of opposition parties.

The National Peasants Party, the mainstay of the DC, announced at the weekend it had appointed Mr Ion Diaconescu, a 79-year-old former political prisoner, as its new president following the death of its former leader last November. *Virginia Marsh, Budapest*

Doubt cast on US federal debt deal

By Jurek Martin in Washington

An unconditional extension of the federal debt ceiling could not pass the House of Representatives, Congressman Dick Armey, its majority leader, asserted yesterday.

Contradicting other senior Republicans, Mr Armey said that any debt ceiling bill, which would enable the US government to avoid default, should come attached with other aspects of the Republican agenda in order to pressure President Bill Clinton to reach a balanced budget agreement.

Mr Leon Panetta, the White House chief of staff, said later that Mr Clinton would definitely veto anything other than a "clean" debt ceiling bill. He said Congress should "not play games" with a subject as important as "the full faith and credit" of the US government.

Mr Robert Rubin, the Treasury secretary, has warned that if the $4,900bn (£3,200bn) borrowing is not raised he may run out of extra measures to avoid default by the middle of next month.

Last week, Congressman John Kasich, chairman of the House budget committee, said Congress should pass a straightforward bill and not "mess around" with default. But Mr Armey retorted yesterday that "John can vote how he wants to, but I don't think it would pass".

Congressman Newt Gingrich, the Speaker, had also a week ago favoured a simple management of the debt problem, though his attitude against the unconditional approach appeared to harden later as he toured Republican fundraisers in the west and south.

The Speaker's ability to control the more radical House Republicans now is in some doubt. A long Washington Post series of articles, ending yesterday, on the budget negotiations revealed the extent to which they felt – as he did at times himself – that he had been consistently out-manoeuvred by Mr Clinton.

The series, detailing one occasion on which he had broken down and others on which his tactical sense was found wanting, concluded that he had found talks in the Oval Office an awe-inspiring experience, not exactly the impression he would have preferred to have left with his more uncompromising colleagues.

The hardline Mr Armey, on whom Mr Clinton also practised his charm with less success, obliquely conceded that these had been difficult times for Mr Gingrich. He carefully refused to go along with the Speaker's assertion over the weekend that the economy appeared headed for a recession this summer.

Mr Armey also said that a third government shutdown, threatened for this Friday, could be avoided by Congress passing another 30-day temporary funding measure which would severely limit the spending of some departments. Mr Panetta said Mr Clinton could sign such a "continuing resolution" but he criticised the Republicans for wanting to attach excessive spending cuts to the resolution.

INTERNATIONAL PRESS REVIEW

Bribe charges rattle a shaky political edifice

INDIA

By Mark Nicholson

Three Congress party ministers and the opposition leader resign after being charged with accepting bribes from a Delhi businessman. Six other politicians are also charged. Dozens more top politicians are being probed by the Central Bureau of Investigation. More charges are promised. A general election is just three months off...

Small wonder India's political scribes have plundered the thesaurus for synonyms of apocalypse.

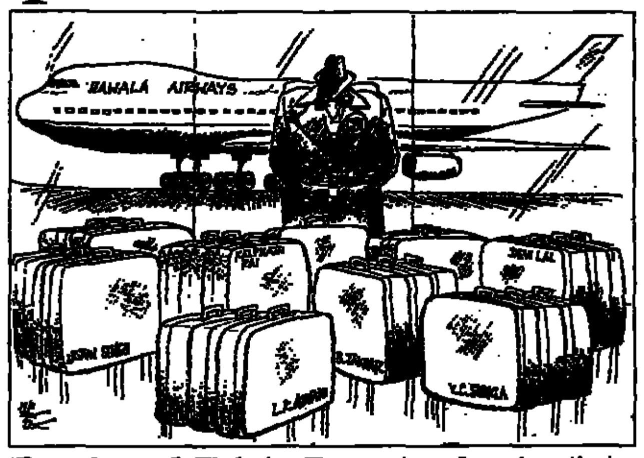
"It may not be unduly melodramatic to describe the CBI's onslaught this week ... as a devastating *dénouement* of the political class as a whole," wrote Mr Ajoy Bose, the *Pioneer's* political editor. "The emerging whirlwind may well sink the democratic political edifice as we have known it." "Cataclysmic," agreed Mr Subir Roy, columnist in the *Business Standard*. Organised politics "may be quite unrecognisable before we know it."

The Indian press has, with increasingly leathery cynicism, covered more than its share of scandals – the alleged Bofors arms kickbacks and the 1992 stock market scam, to recall just two. But in assessing political chaos thrown up by the present case, commentators have ventured tentative optimism that it may for the first time bring prosecution and conviction for political corruption, and jolt some venality out of Indian politics.

The charges derive from notebooks seized by the CBI in connection with *hawala* (black market money deals – where illicit cash "suitcase" deals circumvent currency regulations) allegedly conducted by Mr S K Jain, a steel and power industrialist.

"What Mr Narasimha Rao, the prime minister, has done is to destroy, at one stroke, the cloak of immunity that had gathered, layer by layer, around the political ruling class and its associates over 40 years," said leading commentator Mr Prem Shankar Jha in the Business Standard.

Not that Mr Rao is credited with political altruism. Though the CBI claims to have brought the charges on its own initiative, Mr Rao hand is universally seen behind the timing and selection of charges.



"Excess baggage": Hindustan Times cartoon shows investigator pondering luggage bearing the names of some top politicians

"Since the CBI is, for all practical purposes, the handmaid of the government in general and the prime minister in particular, political motive is writ large in the exercise," wrote Mr V N Narayanan in a *Hindustan Times* editorial.

Thus, most writers conclude, did a four-year-old inquiry fructify into charges only three months before India's elections. Hence the charged include Mr L K Advani, leader of the opposition Bharatiya Janata party, which had been forging a strong anti-Congress anti-corruption drive. So, too, inclusion of Mr Arjun Singh, who last year led a Congress breakaway faction.

"In the entire history of Indian politics," wrote Mr Bose, "there has perhaps never been such an unscrupulous or audacious election gimmick." While Mr Rao's alleged ploy is likely to risk "massive counter-attack" from the opposition, "it is possible that with every leader accusing the other of corruption, the entire issue would become farcical".

Pundits see other dangers for Mr Rao, not least the prospect of angry division in his own party. Mr Roy pointed out to Business Standard readers that Mr Rao might find himself "carried away by the force of events": "It will be a brave crystal gazer who will confidently declare that Narasimha Rao will be able to control what he has unleashed."

But some see the possibility that Mr Rao's "daring gamble", as the Pioneer put it yesterday, may refurbish the image of the Congress Party, particularly by projecting Mr Rao as a decisive leader. "It is a transformed prime minister with a 'new' Congress and a 'new' agenda that is going into battle," the Pioneer declared.

Mr Narayanan, and others, are less convinced. With mud likely to fly and stick to virtually all parties, he said: "Just when the nation is wondering about its choicelessness on the eve of a general election, it has been rudely shocked into a realisation of the enormity of its choicelessness."

Indeed, many argue it will be necessary to look deeper and further than the next elections to find any real net benefits from the scandal. The charges are, said Diwakar column in the *Economic Times*, unlikely to shock the Indian public: "It is quite some time since people ceased considering politicians as selfless souls," it wrote. They may, however, shock politicians. "The overwhelming majority of our political leaders must have accepted donations/kickbacks at one point of time or the other," it said. But the newfound zeal of the CBI, urged on by India's supreme court, should alert them that "the times are changing and that they cannot afford to be complacent any more".

And as times change, so must India's political system, wrote Mr Shankar Jha in the Business Standard. The prevalence of "black money" in Indian politics, he said, arose because there was no proper system for corporate or other donations to be given to parties since the ban on corporate donations in 1970.

This, he wrote, must be addressed as a priority. "The black money politics nexus that developed in the '70s and '80s has become the most important single hurdle to the completion of economic reforms in the '90s".

Mr Rao's first step, in allowing corruption charges to proceed "must", he said, be followed by a second: "establishment of a state fund for financing expenses of recognised political parties".

More lenders ready to back IMF in crisis

By Robert Chote and Graham Bowley in Paris

Up to around 10 new countries are likely to agree to lend money to the International Monetary Fund in the event of future Mexican-style economic crises, according to senior finance ministry officials from the Group of Seven leading industrial countries.

Mr Kenneth Clarke, the UK chancellor, said at Saturday's G7 meeting in Paris that six or seven potential lenders had already been approached and that he expected them to sign up. They are likely to include Austria, Australia, Singapore, Malaysia, Spain and Korea.

Giving the IMF access to more money in times of crisis involves setting up a parallel mechanism to the existing "general arrangements to borrow" (GAB). These already allow the IMF to borrow more than $25bn from the members of the Group of Ten industrial countries.

In the wake of the Mexican crisis the G7 agreed that the amount of money available to the IMF under the GAB should be doubled by recruiting new potential lenders and by increasing the commitments of the existing G10 countries.

The G7 also hopes that expanding the GAB will create a sense of shared responsibility for the stability of the world financial system among a number of the emerging markets which now are playing an important role in the world economy.

G7 officials hope that substantial progress on the GAB expansion will have been made by the time the IMF's policy-making interim committee next meets in Washington in April. Mr Larry Summers, the US deputy Treasury secretary, said a lot of technical work was already under way.

A year after the Mexican crisis, the G7 finance ministers used part of their meeting to assess progress on several other initiatives designed to prevent a repetition of that debacle. This includes establishing international standards for publishing economic data.

Mr Summers welcomed the fact that the G7 now spent more time discussing risks to the world financial system from outside its own ranks. He also noted that the IMF had made a number of desirable changes in the ways it exercised surveillance over the world economy.

Mr Clarke said the ministers also discussed the potential reform of international institutions to tackle excessive costs and bureaucracy, as well as unnecessary overlaps between organisations.

Alsthom denial of bribes claim

By Mark Nicholson in New Delhi

Alsthom Export, a French subsidiary of the GEC-Alsthom power company, has rejected allegations that it paid bribes to influence Indian politicians. Its denial came after the company was named in charge documents against Mr Arif Mohammed Khan, a former minister indicted along with nine other Indian politicians for alleged corruption last week.

A statement from the company's Boulogne headquarters, sent to Agence France-Presse newsagency, responded to reports "implying that Alsthom Export would have been involved in the payment of bribes to Indian politicians", saying it "strongly denied any such allegations".

The claims emerged in the charge document filed last week by the Central Bureau of Investigation against Mr Khan, who served briefly as India's minister of energy and civil aviation in 1990 and who, it alleged, received money as "motive or reward" for clearing a 1990 power project at Kawas, in the state of Gujarat, won by Alsthom Export.

The document asserts that Mr S K Jain, a steel and power industrialist at the centre of the corruption inquiry, between 1988 and 1990 "acted as a middleman" in the award of "certain big projects in the power sector". It alleges "illegal gratuities" paid to politicians and bureaucrats and that "a major portion" of payments detailed in notebooks seized at Mr Jain's residence in 1991 "came from foreign countries through hawala [illegal currency exchange] channels".

In particular, the document says Mr Jain was "lobbying with various public bodies" in connection with Alsthom Export's bid for the Kawas project "with the motive of getting illegal kickbacks".

Citing "investigations" and evidence contained in the seized notebooks, the charge sheet, dated March 4, 1995, states that Mr Khan received a total of Rs74.9m (£1.35m), allegedly from or through Mr Jain. It goes on: "The payment of a large sum of Rs65.4m to Shri Arif Mohammed Khan is thus *prima facie* a payment of reward to him by m/s Alsthom Export of France through Jains mentioned above for clearing the award of long-standing Kawas project in their favour in just one meeting held on 23.1.90."

The charge sheet states that "Interpol references" had been sent to unspecified countries to investigate the alleged foreign sources of funds apparently received by Mr Jain.

هكذا من الاصل

Orange County switches to the offensive

By Christopher Parkes in Los Angeles

The Orange County government has switched to the offensive, threatening more than 20 top-rank Wall Street brokers and financial advisers with possible legal action in connection with the debacle which plunged it into bankruptcy in December 1994.

The southern Californian administration, already suing investment house Merrill Lynch and auditors KPMG Peat Marwick for a total of $5bn (£3.3bn), posted court papers late on Friday, reserving the right to sue all professionals who had done business with the county.

The pre-emptive strike came at a delicate time, with the county attempting to persuade Wall Street to upgrade its lowly credit rating in preparation for the planned issue of some $800m in new bonds.

It also followed an upturn in the bureaucracy's fortunes when the Securities and Exchange Commission agreed deals which effectively freed county officials, politicians and former finance department employees from threat of federal prosecution.

This move is likely to leave Mr Robert Citron, former county treasurer still awaiting sentencing for fraud, and appealing for mercy on the grounds of "dementia", as the only individual to suffer the legal consequences of investment losses totalling almost $1.7bn.

The SEC deals, which have yet to be formalised, also diverted the focus of the watchdog's attention to the professionals and roused speculation that exemplary action could be expected. According to leaked evidence from grand jury hearings, some advisers allegedly knew, for example, that Mr Citron had relied on investment advice from astrologers and a psychic.

Orange County lawyers admitted at the weekend to "omissions" of details on risk and portfolio losses from documents accompanying 1994 bond issues, threatened action against the local bond counsel involved, and turned up the pre-hearing heat on Merrill Lynch.

They filed an emergency motion asking the county court in Santa Ana to order Merrill to give them copies of transcripts of testimony and evidence presented to the SEC by the investment house's employees. Merrill has countered with a demand for information from the Orange County side. "The issue is not the SEC transcripts. We are prepared to hand those over," a spokesman said. "But there is absolutely critical information which will support our case that Orange County is trying to withhold from us."

Merrill, which has denied any failings, blames losses on the county's "ill-advised" decision to liquidate the investment pool and thus make bankruptcy inevitable.

CS First Boston is among the firms named in the county's weekend court filing of possible targets for legal action.

Others on the weekend list included Nomura Securities, Morgan Stanley, Bear Stearns, Dean Witter Reynolds, PaineWebber, Jackson and Curtis, Prudential Bache, Paribas Capital Markets, Sanwa-BGK Securities, Fuji Securities, Cantor Fitzgerald, Bank of America, Kidder Peabody, Donaldson Lufkin and Jenrette, Bankers Trust, Citicorp Securities Market, Daiwa Securities America, Drexel Burnham Lambert, Goldman Sachs, J.P. Morgan Securities, Lehman Bros, Securities Pacific National Bank, Nikko Securities International, and Yamaichi International.

Not all the votes go Fatah's way

Mr Yassir Arafat may have won a huge personal endorsement from Palestinians in the weekend elections, but the results indicate that his days of one-man rule could be drawing to a close.

The elections bestowed on Mr Arafat the democratic legitimacy he has so long craved for the Palestinian-Israeli peace process. His personal victory of about 85 per cent in the two person race for the presidency of a Palestinian executive authority also proved the personal popularity of the veteran leader.

But the larger than expected victory of independents, opponents and critics over candidates on Mr Arafat's official Fatah list is an upset for the Palestinian leader. It will usher in a council prepared to check his often arbitrary decision making and test his traditional intolerance of opposition.

Early results suggest that, although Mr Arafat's appointed Fatah list will form the majority in the 88-member legislative council, there could be up to 35 strong independent men and women with a past record of criticising his authoritarian rule. Many independents are bent on compelling Mr Arafat to become more democratic and accountable and to end his leadership style of patronage.

"This has been a vote for grass roots democracy both by the general population and by Fatah party members themselves," said Mr Jonathan Kuttab, an independent candidate, elected to a reserved Christian seat in Israeli-occupied Arab East Jerusalem. "It is a vote for change, for participation and a vote against being dictated to from above. People love Arafat but they do not want a one man regime any more."

Palestinian women holding registration forms and passports queue at a voting station in Gaza Reuter

With turnout estimated at between 75 and 80 per cent, the results appeared to indicate that the boycott called by the Hamas Islamic opposition and other secular political factions had largely failed. However, in some Hamas strongholds, such as Hebron, turnout was estimated at below 40 per cent although international observers in part blamed heavy Israeli military presence for the low level of participation.

In the West Bank and Gaza Strip tens of thousands of Palestinians shunned Mr Arafat's dominant Fatah faction and opted for independents, critics and dissidents. Many voters also vented their anger at the way Mr Arafat had overturned internal elections in Fatah and voted in popular Fatah activists blacklisted by him.

In several multi-member electoral districts such as Jerusalem, Ramallah and Gaza City, independents received more votes than official Fatah candidates. In the Bethlehem district, which has four seats, the entire Fatah list was defeated by independents.

The results from Jerusalem will be a big disappointment for Mr Arafat. Mrs Hanan Ashrawi, an independent and critic of Mr Arafat's poor human rights record, appeared to head the poll for the district's seven members. Only two official Fatah candidates, including chief Palestinian negotiator Abu Ala'a, appeared set to be elected. Voters also elected Mr Hatem Eid, an independent chosen by Fatah in internal primaries but later blacklisted by Mr Arafat.

Similarly in Ramallah, which also has seven seats, an independent Mr Jawad Abdel Saleh garnered the most votes and only three of Mr Arafat's Fatah list were elected. Ramallah voters choose Mr Faris Hamid Kadoura, an independent who, like Mr Eid, had been elected to the list in Fatah primaries but later vetoed by Mr Arafat. Other Fatah "dissidents" were also elected in Gaza and Nablus.

In Gaza City, Mr Haidar Abdel Shafi, a popular and respected opponent of the peace process and critic of Mr Arafat, attracted the most votes. In results for nine of Gaza City's 10 seats, four official Fatah candidates were elected. The remainder went to independents and candidates loosely linked to the Hamas group. In another surprise Mr Marwan Kanafani, Mr Arafat's spokesman, was defeated despite his clear close ness links to the Palestinian leader.

Early analysis of voting behaviour suggested that Palestinians had split their votes. Mr Nader Said, a sociologist at the Centre for Palestine Research and Studies who conducted an exit poll, said the vote reflected a high degree of political awareness and pluralism.

"This is a real victory for democracy," he said. "There has been a high degree of political maturity, independence and protest voting and it has shown that Arafat cannot use his old ways of imposing on people."

Mr Said said an exciting development was the high turnout of women in what has been seen as a traditional Arab society. "We have moved away from the old traditional ways and we ready to take new ways and attitudes," he said.

He said the greatest mistake in the elections was made by Hamas and the secular opposition which boycotted the polls.

"If the opposition groups had participated it would have been an even greater blow for Arafat and a greater achievement for democracy," he said.

Julian Ozanne

Saddam woos UN again over oil exports

By Robert Corzine

The International oil industry spent the weekend contemplating whether Baghdad's latest overture to the United Nations will result in the first Iraqi oil to reach world markets in over five years.

This possibility was stoked by statements yesterday by visiting French member of parliament Jean-Bernard Raimond that Iraq is determined that talks with the UN on limited oil sales will succeed. Mr Raimond said he sensed a willingness on the part of Iraqi officials he met, including President Saddam Hussein, not to let the talks fail.

"I think the Iraqi authorities are, without ambiguity, all for these conversations (talks)," he said at the end of a six-day visit to Baghdad.

Oil prices have previously

Saddam: 'hates being ignored'

gyrated wildly on rumours of a diplomatic breakthrough that would allow limited Iraqi oil exports for purchases of food and medicine. Last week, markets were unsettled by news of a letter from Iraq to Mr Boutros Boutros Ghali, UN secretary general, accepting an invitation to talk about such oil sales.

But there was uncertainty as to whether Iraq was referring to Resolution 986, which allows for limited oil sales, or whether it wants to discuss a new diplomatic framework for possible exports.

But why would President Saddam Hussein suddenly drop his long-held opposition to the resolution, which he contends would lead to unwarranted foreign interference in Iraq and strip the country of much of its sovereignty?

Even western diplomats admit the resolution is not particularly generous.

Although it enables Baghdad to sell up to $2bn worth of oil over six months, not all the funds would be earmarked for relief supplies.

Ms Christine Helms at Washington's Petroleum Finance Company speculates that Saddam may now accept the theory that even limited exports of Iraqi oil will "break a psychological barrier," that, once removed, may make it hard to stop the momentum for even bigger oil sales in the future.

But both diplomats and analysts say it is impossible to know at this stage whether Mr Saddam has decided to reverse his position on 986. They warned that the current initiative may be just a subterfuge to find out if there are any new cracks in the international community's will to maintain the total sanctions regime.

Other analysts have ascribed more sinister motives to Iraq's occasional diplomatic initiatives. Some say they are done deliberately in order to move oil prices, thus opening up trading opportunities on oil futures markets for Iraqi agents abroad.

Or, as one diplomat says, it may be that Mr Saddam is as recalcitrant as ever. "It's just that he hates being ignored."

But on one issue the analysts and diplomats agree. Eventually one such Iraqi overture will prove to be genuine. But only Mr Saddam will determine which one.

Pondering a first taste of democracy

By Quentin Peel in Jerusalem

Through the small towns and dusty villages of the West Bank, voting in the first elections of the fledgling Palestinian state was very much a family affair.

Husbands, wives and children crowded into the voting booths together, the adults trying to fathom the complex ballot papers while keeping their children quiet.

Tolerant election officials, many of them schoolteachers or local government clerks, painstakingly ticked off names on well thumbed voters' lists, and turned a blind eye to the odd bit of consultation between the makeshift cardboard booths. Security men marshalled the crowds, but there was little sign of interference.

In Dhahiriya, a market town on the road south from Hebron to Beersheba, the atmosphere was overwhelmingly good-humoured, suffused with scarcely suppressed excitement. By mid-morning as many as one in three of voters had already passed through the booths, placing their folded and sealed ballot papers – red for the president, white for the Palestinian legislative council, the future parliament – in padlocked boxes.

It was a stark contrast to the mood in Hebron where Israeli settlers live in a state of permanent armed confrontation with the Arab population, and in east Jerusalem, where Israeli security forces patrolled the streets in strength.

In both places, voting was a trickle, and the atmosphere was fraught. It was a stark reminder of the underlying problems that remain in creating a peaceful Palestinian state side-by-side with Israel.

In Jerusalem, the Israeli authorities refused to allow normal voting to take place, insisting that Palestinian residents of the Old City attend public post offices, and send their ballot papers like postal votes through the postal service. Would-be voters were forced to run the gauntlet of Israeli police roadblocks before they could get near the post offices. For much of the day, police cameramen were ostentatiously filming everyone who passed through the doors.

From the Palestinian left, and Israeli right, protesters attempted to disrupt the voting process, in an extraordinary alliance of antagonistic interests.

Black-coated orthodox Jews sought to break through a police cordon near the Salah-a-Din post office to voice their passionate objection to any Palestinian voting in Jerusalem. A handful of Palestinian Hamas supporters, from the militant Islamic opposition calling for a boycott of the polls, managed a brief protest in front of the post office.

The same story was true in Hebron, where Israeli settlers have plastered Arab shops with star of David slogans, machine-gun toting soldiers patrol the streets, and Hamas has its strongest support. At polling station 19, in a girls' school just outside the town centre, only 8 per cent had voted by lunchtime.

UK, Mexico may act to freeze drug proceeds

By Stephen Fidler in London and Leslie Crawford in Mexico City

Britain and Mexico are discussing an agreement allowing proceeds of crime in one country to be frozen in the other, possibly paving the way for retrieval by Mexico of bank deposits held in London by the brother of Mr Carlos Salinas, former Mexican president.

Mr Raúl Salinas is in jail in Mexico facing murder charges and separate allegations of illicit enrichment while a paid government official from 1976 to 1992. Over $100m has been found in Swiss bank accounts held on his behalf, some in false names, and $22.7m in his name at the London branch of Citibank.

The agreement between the UK and Mexico could be concluded in the next few months. This would allow an application from the UK's Crown Prosecution Service for the account to be formally frozen. Once frozen, the Mexican government could start proceedings to retrieve the funds.

Citibank has informally blocked the London account. An existing accord between Mexico and the UK – signed by former President Salinas on a 1990 visit to Britain – only permits freezing accounts if the funds can be shown to be derived from drug trafficking.

An international investigation of the former president's brother is examining the possibility that he was involved in the drugs trade, an allegation he has specifically denied.

Samper urged again to quit over poll funding

By Sarita Kendall in Bogota

President Ernesto Samper of Bolivia, dogged by accusations that his campaign was funded by drug money, yesterday faced further calls for his resignation and greater information about the funding issue. In a full page interview in the leading Liberal newspaper El Tiempo, former trade minister Juan Manuel Santos urged the president's campaign manager, Mr Fernando Botero, to speak out on the subject.

Mr Botero quit as defence minister in the Samper government when named by the campaign treasurer in connection with Cali cartel contributions to the Liberal party election campaign. Mr Botero is being held in an army barracks and a recent Gallup poll showed that over half the respondents believe he is protecting the president.

Mr Santos, who is a probable candidate for the next presidential elections, said Mr Samper should resign if the prosecutor-general rules the campaign involved use of drug money, whether or not the president knew about the contributions. Mr Samper has said if there were such contributions they were made behind his back.

Last week, Liberal Senator Maria Izquierdo apparently corroborated the former campaign treasurer's testimony when she said told the Supreme court she had received some $30,000 in cash in cardboard boxes for Mr Samper's campaign.

Argentina under scrutiny by IMF

Claims by Mr Domingo Cavallo, Argentina's economy minister, that growth could accelerate to 8 per cent this year will be face scrutiny today when a visiting team from the International Monetary Fund begins its inspection of the nation's fiscal accounts, writes David Pilling in Buenos Aires.

The Fund, which led a $7bn (£4.6bn) Argentine rescue package last year in response to the economic crisis sparked by Mexico's devaluation, will assess a request for around $1bn in further loans in 1996.

Apart from establishing realistic growth prospects for this year, estimated by private economists at 3 per cent, the IMF team will also insist Argentina take strong measures to curb public spending and raise tax collection.

Last year, recession and disappointing tax receipts led to an estimated fiscal shortfall of $1.2bn against the $4.4bn surplus initially targeted by the Fund. The economy, strangled by capital flight of $8bn, contracted by around 2.5 to 3 per cent.

Last week, Mr Cavallo predicted 1996 would be a year of "recuperation" and "a very vigorous economic growth path of the same magnitude we saw between 1991 and 1994, with annual growth rates of close to 8 per cent." The 1996 budget is based on a growth forecast of 5 per cent.

Mr Pedro Lacoste of Alpha economic consultancy said Mr Cavallo's optimism relied too heavily on the supply side to push activity and underestimated restraints imposed by sharply reduced demand. "In spite of renewed liquidity and "booming" capital markets, "the consumer rebound will be slow because the guy on the street is concerned about his future income and about job security," he said.

Big rise in pharmaceuticals sales

By Daniel Green

World drug sales for the first 11 months of 1995 surpassed the total for the whole of 1994, according to figures published today.

Sales in the world's 10 biggest markets were worth $125.7bn (£83.2bn), up 8 per cent, excluding currency effects, on the figure for the same period of the previous year.

This figure was $3bn greater than the total for all of 1994, according to IMS, the specialist drugs industry market researchers. Growth was much faster than the 5 per cent recorded a year ago and was driven by sales in the US and Japan, the two biggest markets.

Sales in the US of $52.2bn were 10 per cent higher than in the first 11 months of 1994. In Japan, sales amounting to $24bn represented an increase of 9 per cent.

The slowest growing market was Italy, where stringent government cost control measures have been imposed on the pharmaceuticals sector. Italian drug sales rose 4 per cent (to $7bn) compared to 1994.

Among the rapidly growing markets was the UK, where sales rose 9 per cent to $5.7bn. But the UK is starting from a relatively low base. Sales in France rose 6 per cent to $13.7bn, while those in Germany increased 7 per cent to $15.1bn.

By medical area, the fastest growing sector is treatments for respiratory diseases such as asthma. Sales in the top 10 markets climbed 13 per cent to $13.1bn in the first 11 months of 1995.

Three other areas grew at 12 per cent:

● Nervous system drugs, with sales of $16.2bn; the area includes anti-depressants such as Prozac, made by Eli Lilly of the US.

● Anti-infectives, with sales of $13.1bn; the area includes antibiotics such as Augmentin, made by Anglo-US company SmithKline Beecham.

● Blood agents, with sales of $7.1bn. The sector includes the fast growing class of drugs that lowers cholesterol levels and includes Lescol, made by Switzerland's Sandoz.

The largest two areas, heart disease and digestive system drugs, are both subject to heavy competition and sales posted slower growth.

Heart drug sales rose 4 per cent to $22.6bn and digestive system drugs sales grew 6 per cent to $21.4bn.

By country and medical area, there were some poor performances and some sharp rises, depending on competition, government price controls and new product launches.

World pharmacy drug purchases January-November 1995 in US$m

	N. America	Japan*	Germany	France	Italy	UK	Spain	Netherlands	Belgium
Cardiovascular	8,179	3,690	3,501	3,255	1,495	947	862	344	359
Alimentary/Metabolism	8,482	4,437	2,586	2,141	1,184	1,139	720	425	273
Central Nervous System	9,182	1,177	1,854	1,639	728	805	538	229	291
Anti-infectives	4,849	3,178	1,075	1,775	912	420	546	116	216
Respiratory	5,604	2,117	1,588	1,149	495	867	435	267	173
Blood Agents	2,476	2,212	613	833	408	107	255	95	77
Musculo-Skeletal	2,104	2,289	776	658	414	347	226	79	94
Others	11,302	4,917	3,296	2,236	1,238	1,068	772	340	312
Total	52,178	24,017	15,089	13,686	6,875	5,700	4,354	1,895	1,795
% Change**	10	9	7	6	4	9	11	6	7

Source: IMS International. *Non-hospital market only **Increase excluding currencies

صكذا من الاصل

Suppliers predict recovery for railway rolling stock

By Charles Batchelor, Transport Correspondent

Train operating companies are poised to resume ordering new rolling stock after a gap of more than two years. Manufacturers have been closing factories and making staff redundant because of the lack of new orders in the period before privatisation of the national network. But they now expect orders to be placed this year.

The companies which have disclosed plans to buy trains are:

● British Rail, the remnant of the state-owned national network, which has invited suppliers to prequalify to hire trains to train operating companies. BR said it wanted to get preliminary work out of the way so any of its subsidiaries which have not been privatised will be able to order new rolling stock without delay. BR has placed a notice in the Official Journal of the European Union, where large public sector contracts must be publicised.

● M40 Trains, a management buy-out team which is bidding to acquire the Chiltern Railways franchise between London, the Chiltern Hills and the city of Birmingham. It has also placed a notice in the Official Journal for six diesel-powered cars with an option to acquire up to a further 24.

● Enterprise Railway, the management buy-out team which acquired the London, Tilbury & Southend rail franchise last month. It has said it plans to renew its rolling stock in return for being granted a 15-year franchise.

In addition to these announcements, Mr Roger Salmon, the franchising director, said last week that he would be prepared to consider 15-year terms for the Gatwick Express franchise and others if the bidders were prepared to invest in new rolling stock. Gatwick Express runs non-stop trains between London Victoria and Gatwick Airport.

Rolling stock manufacturers welcomed signs of a renewal of orders but sounded a note of caution. "These are small numbers of trains and we do not know what type of rolling stock these companies will be looking at," said Mr David Gillan, the director of the Railway Industry Association.

ABB Daimler Benz Transportation, which closed most of its factory in the northern England city of York because of a shortage of orders last year, said it saw "a glimmer of hope" for new orders.

British Rail, the heir to the national network nationalised in 1948 is being replaced by a fragmented system in which the main elements will be Railtrack and a series of train operating companies.

Railtrack, owner of the national railway network's track and signalling, has been given an additional £84m ($128m) this year to make up for the penalties it is obliged to pay train operators for delays caused by points failures and signalling breakdowns. But this compensation will be cut to £10m in 2000-2001 to encourage Railtrack to improve the ageing infrastructure it has inherited from the state-owned national network now being privatised. This year's bill for penalties will be £90m. Details will be announced tomorrow when Railtrack announces its results for the six months to September 1995. The state-owned company is believed to have made a profit of nearly £100m on turnover of about £1.1bn.

Vibrations trouble advanced P&O liner

By Our Transport Correspondent

The Oriana, the £200m ($304m) flagship of the P&O fleet of cruise liners is to be fitted with a complete new set of propeller blades because of problems of vibration at high speeds. A ceremony of naming the ship by Queen Elizabeth II was held only nine months ago.

The ship, described as the fastest cruise liner to be built in more than 25 years, is unable to sail comfortably at its maximum cruising speed of 24 knots and is restricted to a more sedate 22 knots.

The Oriana – now on its way to the Panama Canal on its first round-the-world cruise – can fulfil its published timetable of sailings at the lower speed, P&O said. But the ship was designed to operate at high speeds so that it could reach the Mediterranean and Caribbean from the UK with the minimum of delay.

Replacement blades for the vessel's two 32-tonne propellers have been supplied by Lips, the Dutch manufacturer. But an attempt to fit them earlier this month was postponed when high winds prevented the Oriana going into dry dock at Southampton in southern England. P&O now expects to fit the blades when the vessel goes into for regular maintenance later this year.

P&O played down the significance of the problem which it said affected only a small number of cabins if the vessel was sailed at top speed. But it is an embarrassment for the company which has promoted the vessel as the latest in comfort and high technology.

"Designing propellers is more of an art than a science," said Mr Gwyn Hughes, managing director of P&O Cruises. But in a glossy commemorative book produced at the time of the naming ceremony P&O emphasised the computer controlled technology which had gone into their design. The propellers "not only drive the ship through the water efficiently and economically but also, by their smooth running, help make life on board as pleasant as any first-class hotel ashore," the text said.

The company is in negotiation with the Meyer Werft yard of Germany – and yesterday said that it expected the shipbuilder to meet the costs. Lips said that propellers fully met the specifications set by P&O.

Labour party Hope rises for first general election victory since 1974

Centrist leader speaks of coalition

By George Parker at Westminster

Mr Paddy Ashdown, leader of the centrist Liberal Democrat party, yesterday raised the possibility of a coalition with Labour.

The Liberal Democrat leader, normally reluctant to discuss post-election scenarios, even conceded that he or other senior party figures might be prepared to serve in a Labour cabinet. The party, a successor of the reforming Liberal party of the late 19th and early 20th century, is the third-largest in the House of Commons, but has far fewer MPs than Labour or the Conservatives.

Mr Ashdown will tonight set out terms and conditions for working with Labour in the next parliament. But many Liberal Democrats remain deeply sceptical about Labour. Mr Ashdown, however, is convinced that co-operation with Mr Tony Blair, the Labour leader, offers the best chance of putting his party's policies into practice.

Mr Ashdown said on BBC television that he wanted to see clear commitments from Labour on education, the environment and the European Union. Mr Ashdown's aides said there was no question of any formal coalition with Labour unless Mr Blair offered a referendum on electoral reform.

"I believe the things that need to be done in this country cannot be done unless you have a modern constitution. That is the enabling measure that makes the other things possible," Mr Ashdown said.

Asked if he would be prepared to join a formal coalition government with Labour, he replied: "Of course. If the mathematics said that, if the policies were agreed between us, if they were putting into practice the things that we believe in, that's a possibility.

"But it is also a possibility that we vote them down if that is not what we believe needs to be done for this country." He refused to rule out joining a Blair cabinet.

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Growing fear of change grips City of London

By Graham Bowley, Economics Staff

Investors recall all too well the rampant inflation and high interest rates of the 1970s when the Labour party was last in power. Now every by-election loss for the Conservative party and every report of government infighting sends ripples of fear across the City of London at the prospect of a Labour government.

"For many investors, particularly foreign investors, their perception of Labour is inflation, and perception is everything despite what happens in fact," said Mr James Johnston, an investment fund manager at AMP Asset Management.

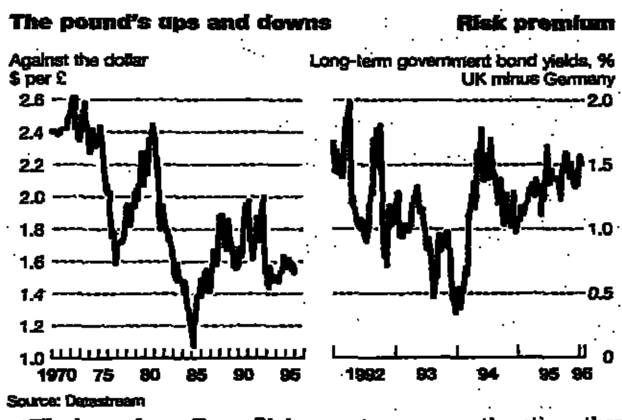
"Labour have not been in power for 16 years so many international investors simply do not know what they are in for," said Mr Lee Ferridge, currency strategist at NatWest Markets.

Last summer's battle for leadership of the Conservative party between Mr Major and Mr John Redwood, a former member of his cabinet, caused a sharp drop in the price of UK government bonds as investors feared that a general election was being brought closer. The Labour has been far ahead of the Conservatives in opinion polls for many months.

The risk premium demanded by bond investors for investing in UK government bonds – already substantially higher than in, say, Germany, where the authorities have a better track record in keeping inflation low – rose sharply at the time of the Conservative leadership battle. Investors were afraid that a Labour government – high spending and inflationary – was imminent.

Labour is now trying hard to convince the investment community that it could be trusted with the economy following a general election victory. There are signs that its efforts are beginning to reap rewards.

Few analysts anticipate that a Labour victory would in fact precipitate a sterling crisis or a bond market crash. Many think that the pound and gilts will weaken as a general election approaches – but they think this is due more to investors' dislike of uncertainty than any aversion to Labour policies.



Source: Datastream

"We have from Tony Blair [leader of the Labour party] a statement of intent which looks very responsible," said Mr Avinash Persaud, the head of currency research in London at the US bank J.P. Morgan. "But the market simply does not know how Labour will react under unanticipated events."

Mr Stephen Lewis, head of research at the London Bond Broking Company, thinks that financial markets may look more favourably on the prospect of a Labour government than on the current Conservative government. This is because a Labour government with a strong parliamentary majority would offer investors greater certainty than a Conservative government with only a slim majority in parliament.

"At the moment the prime minister has to zigzag between two opposing policies to appease each side of his party," he said. "This creates uncertainty and markets hate uncertainty."

What's more, he thinks Labour's more pro-European stance might find greater favour among non-UK investors than the Conservatives' more lukewarm approach to the European Union. He thinks investors would feel happier putting their money into a country that was set to play a full part in European integration than one which was going to stand aloof.

Mr Steve Hannah, an analyst in London at IBJ International, a Japanese bank, thinks the pound and bond markets will weaken as an election nears – but more because of the current government's actions than Labour's.

He said: "It is not so much a fear of Labour as the suspicion that we are now entering a political phase when interest rates will be manipulated for political gain."

He thinks there will be more interest rate cuts as the government attempts to conjure up the elusive "feel-good" factor among consumers and hence to win more votes for itself. He also believes that this will "erase support for sterling".

Last week's quarter-point cut in interest rates was greeted by widespread suspicion among City economists that it was done for political rather than purely economic reasons although financial markets reacted favourably to the move.

Mr John Shepperd, chief economist at Yamaichi International, a Japanese bank, points out that most large investors have very short-term time horizons – they are judged by their performance over just a few months rather than years. As a result, he thinks investors have not yet fully taken a general election in late 1996 or 1997 – when it is expected to take place – into account yet.

"When there is an election, overseas investors will ignore the UK gilt-edged market, while UK investors will look abroad," he said.

Meanwhile, Mr Johnston recalls the last general election four years ago. He said: "In 1992, financial markets largely ignored the possibility of an election until two months before the event and then panic broke loose."

UK NEWS DIGEST

Ireland gang beats man with hammers

Two gangs claiming to belong to the Ulster Freedom Fighters, an outlawed anti-nationalist group in Northern Ireland, beat a man with hammers and baseball bats and wrecked his flat and a nearby one in the west of Belfast, the region's capital. The attack was the latest of a series of acts of violence committed since the ceasefires were declared in 1994 by the Irish Republican Army and its anti-nationalist rivals. The man beaten in the latest attack was later treated in hospital for head and body wounds. At the second flat masked men asked for a person by name and, when told he was not in, wrecked the place.

Later Mr John Taylor, deputy leader of the Ulster Unionist party, the largest pro-British party in the region, said he believed that the international arms commission led by former US senator Mr George Mitchell would be unable to end the deadlock over "decommissioning" of weapons held by the IRA and its rivals. The commission is due to report on Wednesday. *PA News*

Sell-off deadline missed

The government has missed its January 2 deadline for vesting AEA Technology, the consulting arm of the Atomic Energy Authority, which is to be privatised this year. But the Department of Trade and Industry said sell-off plans were still on track. Vesting is now likely in March, and the government still hopes to sell the company this year as planned. The department said January 2 had been "a planning assumption" not linked to an actual sale date. *David Lascelles, Resources Editor*

Stores group may protest

Tesco, the store chain which claims to be Britain's biggest retailer of petfoods, may complain to the Office of Fair Trading about what it claims are restrictive trade practices in the petfoods supply industry. Tesco says several specialist manufacturers have refused to supply it. "We know our customers want these products, but for too long Britain's pet owners have been paying over the odds," said Mr John Gildersleeve, a Tesco director. The company says some manufacturers will supply petfoods only through outlets such as veterinary surgeries and independent shops. Specialist petfood manufacturers say they prefer to sell through outlets where knowledgeable staff can give advice about which products are appropriate. *Neil Buckley, Consumer Industries Staff*

Church leaders to complain

THE NATIONAL LOTTERY

Mrs Virginia Bottomley, national heritage secretary and minister in charge of the National Lottery, is to meet church leaders about their concern that top prizes in the lottery are becoming too big. If nobody wins the top prize in one week's draw it is "rolled over" and added to the next week's prize. Nobody won yesterday's £25m jackpot which will therefore be added to this week's to make a top prize likely to exceed £40m ($61m). Mrs Bottomley will meet senior representatives of the Roman Catholic Church, the Methodist and Baptist churches and the Protestant churches of England and Scotland. The Right Reverend Philip Goodrich, Church of England bishop of Worcester, said: "If it gets bigger and bigger, where is it going to stop? I would rather see a lot of people being helped than it going to help one person." *PA News*

Stabbings mark end of knife amnesty: An unarmed policewoman and a businessman helped to disarm a man with a long knife after a 35-year-old woman and her 2½-year-old son were killed at one of Britain's busiest railway stations in the city of Birmingham. Later the woman's three daughters were found stabbed in the family's home. The killings occurred on the last day of a month-long national amnesty for people to hand in knives to police. The amnesty was called after the murder by stabbing of a London head teacher near his school while he was defending pupils.

Spaceman ousts George Michael: George Michael's song *Jesus To A Child*, his first No 1 in Britain for 10 years, has been ousted from the top of the pop music chart by a song called *Spaceman* from an unknown band chosen to back a television commercial for Levi jeans. Babylon Zoo is led by 24-year-old Jas Mann, a songwriter of Asian and native American ancestry based in the English Midlands city of Wolverhampton. Mr Clive Black, UK managing director of EMI and the man responsible for signing the band, said Spaceman "looks like being EMI's biggest-selling single since the Beatles in the 60s."

German-style boards lose favour

By George Parker at Westminster

The Labour party's commitment to building a "stakeholder" economy will come under renewed scrutiny next month when the party backs away from proposals for German-style two-tier company boards.

Labour was attracted to the idea of supervisory second-tier boards as part of its drive to make directors more accountable and to curb excessive boardroom pay rises. But many business leaders objected to the proposals, which would have given workers and outside interests – including representatives from the local community – a direct say in the running of companies.

Although the idea has strong resonance with party leader Mr Tony Blair's vision of a "stakeholder economy", a party committee on corporate governance will conclude that it no longer has a high priority.

The committee, led by Mr Stuart Bell, the party's shadow corporate affairs minister, believes that workers' councils will be more effective in providing a check on directors.

"Labour is downgrading its emphasis on two-tier boards on the grounds that workers' councils will give a more effective voice to the workforce than a supervisory board," a senior party official said.

Under the provisions of the European Union social chapter – which Labour is committed to implementing – large companies are obliged to consult workers' councils. "We are interested in the supervisory board system, but if workers' councils take off that might be a more attractive proposition," the official said.

German boards consist of a management tier which runs the company and a supervisory tier including shareholders and workers. Last year, Labour expressed its enthusiasm for the idea. The Labour committee, which includes Mr Alistair Darling, the party's spokesman in parliament on the City of London, is expected soon to produce its final proposals on corporate governance and regulation. The plans will then be submitted to the party's policy forum and the annual party conference in October.

The proposals are expected to call for a ban on new executive share options and the creation of a Companies Commission, charged with policing the Companies Acts and with supervision of Stock Exchange listing requirements.

Prosecution office may be replaced

By John Mason and George Parker

The Labour party is considering scrapping the Serious Fraud Office (SFO) in its present form and absorbing it within a new Companies Commission, responsible for policing City and corporate affairs.

The acquittals in the Maxwell trial, and the £11m ($16.8m) cost of the SFO prosecution, has persuaded Labour of the need for sweeping reforms of the way allegations of fraud and other corporate crime are investigated.

The news came as the SFO said that further prosecutions of Mr Kevin Maxwell and others over the collapse of the Maxwell empire remained a realistic possibility.

At the heart of Labour's proposals is the creation of a Companies Commission, operating as an arms-length government agency, taking on powers of investigation now held by the government's Department of Trade and Industry.

"The aim would be to take the role of investigation out of the hands of politicians," said Mr Stuart Bell, shadow corporate affairs minister.

The proposed commission would enforce the Companies Acts and supervision of Stock Exchange listing requirements. Its remit would also include the regulation of the City and the accountancy profession.

The acquittals last Friday of Mr Kevin Maxwell, his brother Ian and Mr Larry Trachtenberg, a former adviser to Robert Maxwell, precipitated criticism of the SFO for having failed to secure convictions. The two Mr Maxwells are sons of Robert Maxwell, the late publishing magnate.

But the SFO said it was "by no means a forgone conclusion" that the office would respond to criticism by dropping outstanding charges against Mr Kevin Maxwell and five other former Maxwell directors. Although acquitted of fraud charges against pension funds involving £122m, Mr Kevin Maxwell still faces charges alleging that he defrauded others, largely banks, of £172m. Mr Ian Maxwell, Mr Trachtenberg and three other former Maxwell directors also face further charges of conspiracy to defraud.

The criticism of the SFO following Friday's acquittals would make any further prosecutions both politically and legally difficult, it is acknowledged in the office. Some lawyers close to the case suggest that future trials would require the tacit approval of the attorney-general Sir Nicholas Lyell and possibly other ministers.

The SFO would face considerable legal hurdles. Lawyers for Mr Kevin Maxwell have argued that any future prosecutions would be "oppressive".

However, it is understood that some in the SFO are maintaining a robust attitude to the case. It is thought possible the SFO may press ahead on two of the outstanding charges. One alleges a $35m fraud against Swiss Volksbank over the use of shares in Berlitz, a former subsidiary of Maxwell Communication Corporation. The second alleges a £50m fraud against Mirror Group Newspapers.

THIS WEEK

Germany's coalition left right out

DATELINE

Bonn: Can a centrist social market approach cope with the competitive pressures of globalisation? asks Peter Norman

Truths dawn slowly. It is time to make a confession. There have been occasions when I have used the expression "centre-right" to describe the coalition in Bonn. After nearly six months of reporting the activities of Chancellor Helmut Kohl and the various political parties in Germany, it is clear that this cliché has outlived its usefulness. There is an awful lot of "centre" in German mainstream politics but precious little "right".

When Kohl came to power in 1982, centre-right was as good a shorthand as any to describe his government of the Christian Democratic Union, the Christian Social Union (the CDU's Bavarian sister party) and the Free Democrat Party. At that time, the coalition's centre was the FDP, most of whose MPs had deserted, and so destroyed, the previous Social Democrat-led centre-left coalition of Chancellor Helmut Schmidt.

Admittedly, there seemed little to choose in ideology between Schmidt and Kohl. But Kohl's Christian Democrats certainly looked and sounded right wing compared with most of the former chancellor's followers in the SPD. The CDU came to power pledged to cutting deficits and rolling back the state. And although it quickly became clear that Kohl was no free market radical, those of a right wing bent could take heart from the blustering presence of Franz Josef Strauss as head of the Bavarian CSU.

But where is the right wing of the centre-right coalition today? Certainly not in the CDU or CSU if you follow the analysis of Guido Westerwelle, the FDP's preppy 34 year old secretary general. His party, he recently declared, was "not Germany's fifth social democratic party". With that remark, Westerwelle put the CDU and CSU in the same left of centre pot as the SPD and the Greens.

Westerwelle's analysis is not entirely disinterested. His party is in a bad way, having suffered a string of electoral defeats in state elections. He is trying to mark out a role for the FDP "as the one and only liberal free market party in Germany" stressing the need for tax cuts and reduced state activity.

But you do not have to buy Westerwelle's politics to realise that there is much truth in his judgement of his coalition partners.

Where once the FDP could occupy a space between the CDU and SPD, giving it the opportunity to coalesce with either, there is now an overlap between the left of the CDU/CSU and the right of the SPD.

This overlap is personified in Norbert Blüm, the CDU labour and social affairs minister who, like Kohl, has been doing the same job in the cabinet since 1982. Blüm is determined not to dismantle Germany's generous welfare state, has been an enthusiastic promoter of new social programmes and has resisted deregulatory steps such as a liberalisation of shopping hours. Hans-Olaf Henkel, the head of the German federation of industry, once declared that he could detect no difference between Mr Blüm and Rudolf Dressler, the social affairs expert of the opposition SPD.

An analysis in the newspaper Die Woche concluded last week that there was little to choose between SPD and CDU in terms of social, financial and foreign policy. Although the two sides differed on home affairs and economic philosophy, in many areas the CDU was closer to the SPD than the FDP.

Even Theo Waigel, the Bonn finance minister and CSU leader, appears less than a paragon of austerity on close inspection. But he is not above hymning the praises of the federal government's swollen social security budget. By some standards, his target of cutting public spending as a share of gross domestic product to 46 per cent by 2000 from just over 50 per cent now is hardly ambitious.

It was probably a mistake ever to expect Germany's Christian parties to be more right than centre. The country's grim history in the first half of this century has placed a premium on stability and consensus. The CDU and CSU are themselves coalitions. In their earliest days after the second world war, they provided a political home for the Catholic and protestant working class that did not wish to identify with socialist political movements.

The strong social element of Germany's Christian parties was apparent from the start. It was the CDU-led government of Konrad Adenauer, West Germany's first chancellor, that introduced inflation-proof pensions and institutionalised co-operation between workers and management giving workers seats on company boards.

The big question is whether Germany's centrist "social market" approach can cope with the competitive pressures of globalisation that have prompted German companies to invest heavily abroad and have contributed to the upward march of unemployment towards 4m.

An important test comes at the end of this month when the government will unveil "an action programme" of deregulation, tax changes and welfare reforms to increase jobs and growth. The details of that programme should also decide whether we can revive the idea of the coalition being "centre-right". If so, the CDU will be the centre and the FDP the right.

FT GUIDE TO THE BROADCASTING BILL

Why do we need another Broadcasting Bill? Wasn't there a perfectly decent one in 1990?
Everything has changed since then. The government believes in the convergence of broadcasting, telecommunications and computing so the aim is to liberate British media companies from petty restrictions to compete on the world stage, not to mention the arrival of digital terrestrial television. It's also nice to be able to fix flaws from last time such as the daft insistence that 51 per cent of Independent Television News should be sold to non-broadcasters.

So what's the biggest change?
Last time the government believed that to protect diversity of opinion and prevent the creation of vast media conglomerates different media should be kept separate. National newspapers were only allowed to own 20 per cent of a television station and vice versa. And "big" ITV companies – 10 of them were judged to be "big" – could not take over each other. Now newspapers will be able to take over television, radio, cable and satellite operators and ITV companies will be able to do virtually whatever they like.

Virtually?
There are limits. The old rules will still apply to Rupert Murdoch's News International because it has such a large share of the market. And to avoid the appearance of being anti-Murdoch, the Mirror Group will be roped in too. But ITV will have tremendous freedom. There will no limit on the number of licences held. A limit will be 15 per cent of the total television audience, including BBC viewing.

But that's huge.
Quite so. Carlton Communications, the largest ITV owner, only has 9.4 per cent of the total audience, so expect the takeover battles to begin in the summer. With the exception of News International and the Mirror, lobbyists got exactly what they wanted.

Does this mean that Associated Newspapers, for example could suddenly buy large ITV companies as well as owning the Daily Mail?
In theory it will indeed be possible. Because the rules probably won't change until January 1 next year the share prices are likely to reflect full value by then and the greatest economies of scale will flow to ITV companies which take over other ITV companies. Associated, owner of the London Evening Standard, might be able to take over Capital, the London commercial radio group.

What's this about digital terrestrial television?
The government believes the UK is in the lead here and sees the opportunity not only to broadcast 20 channels of digital television from ordinary transmitters to conventional home TV aerials, but also to export the digital "black boxes" needed to receive the pictures.

How realistic is this ambition?
The British technological lead is real. But how will digital terrestrial compete commercially with digital satellite, which is likely to be broadcasting 150 channels before the 20-channel system gets going? As usual Mr Murdoch holds the key. After all, he has something to show – all the rights to movies and lots of exclusive sport.

Sports rights. Isn't that a bit controversial?
David Mellor argued vociferously during the passage of the 1990 Bill that protection should be removed from sports events including the Grand National, Wimbledon and the Olympics. They could disappear off terrestrial television and be shown on a subscription sports channel, although charging separately for each event was banned. Sports rights owners should be able to get a fair market price Mr Mellor argued.

He has now changed his mind?
Indeed. The former broadcasting minister plans an amendment to restore the listed events protection.

Will the government accept the amendment?
They've got one leg on each side of the fence at the moment. They still believe in the market and the rights of sports owners. Absolutely. But the viewers as voters could turn nasty if Wimbledon was to disappear from terrestrial television.

Any nice, sensible, rational bits in the Bill?
A few, mainly fixing mistakes and inconsistencies from last time. The ITV companies were given the right to negotiate a second 10-year licence without another franchise auction. No such provision was made for the three national commercial radio stations. Now renewal will be possible, although the national station will have to invest in digital radio to get the prize.

Any more?
Channel 4 will not have to pay quite so many hundreds of millions of pounds to the ITV companies under a funding mechanism designed to protect Channel 4 from collapse. Channel 4 wants the government to abolish the funding formula altogether.

What happens next?
Apart from bankers and takeover specialists getting richer and more broadcast staff losing their jobs, probably not a lot. Except that by July when the 1996 Broadcasting Bill gets Royal Assent the lobbying will get under way for the next broadcasting bill which cannot be far off.

Raymond Snoddy

Broadcasting House: the BBC would benefit from events protection

PEOPLE

Kofler in the German television big league

Judy Dempsey meets Pro 7's restless chairman

There seems to be no stopping Georg Kofler, the 38-year-old chairman of Pro 7, Germany's independent commercial television network. Earlier this month, he surprised the media world by announcing a partnership with Rewe, the country's largest retailing group.

Then last Monday, Pro 7 launched a half-hour news programme at prime time, investing DM30m ($21m) in equipping new studios. In March, it teams up with Focus, the weekly magazine owned by the Burda publishing group, on a new documentary series to compete with Der Spiegel.

And later this year Pro 7 will become Germany's first broadcasting network to be listed on the stock exchange – offering 35.5 per cent of its shares. "We want to be taken seriously. We know where we are going," says Kofler.

Pro 7 has come a long way since it was founded in 1989 by a trio comprising Kofler, Gerhard Ackermans, a businessman, and Thomas Kirch, son of Leo Kirch, the Munich-based media mogul.

Kofler had left ORF, Austria's state broadcasting company, in 1987 to work alongside Leo Kirch. A unsuccessful and short-lived experiment followed, with a commercial channel called Eureka TV – Kofler still winces in recollection of the mistakes made there – before the launching of Pro 7. Despite difficulties in obtaining the channel's broadcasting licence, Kofler soldiered on.

Today, Pro 7 enjoys a 10 per cent audience share, and is number one in terms of children's viewing, with 19.7 per cent – ahead of RTL, its main German competitor. It is in second place in the under-30 and under-50 age groups.

Even more surprising, Kofler is on the verge of making a return on Pro 7's initial start up costs of DM650m, with profits of DM180m forecast on revenues of DM1.2bn this year.

Kofler, a restless presence, his office wall covered in television screens, was born in the Italian town of Brunico in south Tirol. He puts his success down to one thing: "top class entertainment".

The audiences are given a mix of programmes – US and home-produced – and the presenters, staff, technicians and producers are young, reflecting Pro 7's bid to capture the younger generation.

Of course Kofler can rely on the extensive Kirch film library, but not exclusively. "Programming is costing more and more," he says. This partly explains why Pro 7 joined forces with Rewe, which paid "at least DM100m" for its 40 per cent share, according to Kofler.

The deal gives Pro 7 access to more than just capital, however. "It is a perfect marriage," says Kofler. "We get management know-how and will be able to distribute our products – tapes, CD-roms and T-shirts – through Rewe, while Rewe will get access to our screens. More importantly, this partnership will give us stability... We need not worry about being taken over."

Pro 7's George Kofler: determined to stay at the top despite competition,

There were also other pressures at work, too, as Pro 7's licence comes up for renewal in 1996: "Because of the Kirch connection, there was concern that Kirch was holding too many stakes in television." To make the ownership structure more transparent, Pro 7's management decided late last year to sell 40 per cent of its shares to a consortium of banks, which in turn sold them to Rewe this month. Thomas Kirch's stake was reduced from 47.5 per cent to 24.5 per cent.

The prospect of financial stability has given Kofler little reason to slow down. He knows that competition for a slice of the country's annual DM6bn advertising revenue is increasing all the time, just as the quest for greater market/audience share never eases. "We are in the big league now," he says. "The struggle is to stay there."

NAMES IN THE NEWS

Pin adds a bank to his financial stable

Pin Chakkaphak, the charismatic leader of Thailand's largest finance company, Finance One, has finally added a commercial bank to his stable of financial institutions, *writes Ted Bardacke in Bangkok.*

His alliance with Thai Danu Bank did not exactly conform to the style of a man whose hostile takeovers, outspokenness and US birth and education have ruffled feathers in the clubby world of Thai banking.

Pin had been trying to take over Bank of Asia for more than a year, but eventually opted for a "friendly alliance" with Thai Danu, the majority control of which will remain with the Tuchinda and Thavasin families. Finance One will get two seats on Thai Danu's five-member executive board, meaning Pin – who is fond of pointing out the difference between an agile investment banker like himself and conservative commercial bankers – will face another set of negotiations before being able to sign a deal.

Yet some note that the 46-year old Pin showed some rare "Thai" qualities of discretion and deference throughout the negotiations with Thai Danu, first by keeping them secret for more than two years, and then by letting the bank's president, Pornsanong Tuchinda, take centre stage as the public became aware of the impending deal.

By linking up with Thai Danu instead of taking over Bank of Asia, Pin has, for the foreseeable future, ruled out the possibility of becoming a bank president, something he used to long for but claims he no longer desires.

He may have lost some money in the process. Bank of Asia soared far above Friday's close of Bt54.5 as Pin launched his takeover attempt last year, making each step more costly. Pin insists most of his approximate (and indirect) 25 per cent stake was purchased at Bt47 and that he will not dispose of it immediately.

Hundt's softer line

The choice of Dieter Hundt as the next president of the German Employers Federation (BDA) marks a decisive shift away from the hard line position German employers have adopted against trade unions during the last few years, writes Wolfgang Münchau in Frankfurt.

Hundt, the 57-year-old chairman of a mid-sized Swabian engineering company, and head of the Baden-Württemberg employers' federation, has a long record of striking wage agreements. Known as an experienced deal-maker, he was closely involved in clinching last year's wage agreement in the metal sector, which came after a damaging strike in Bavaria.

It turned out to be one of the most controversial wage agreements ever reached in the sector, and some metal industry employers are still railing against the agreement and Hundt in particular, after it cost some companies between 6 per cent and 7 per cent in added wage costs last year.

Hundt will follow Klaus Murmann, the hard line president of the BDA, who is standing for the presidency of Unice, the European employers' federation.

A similar shift away from the hardliners, towards the moderates, was also evident at Gesamtmetall, the engineering employers' federation. Hans-Joachim Gottschol recently announced he was stepping down as president of Gesamtmetall. He will be replaced by his predecessor, Werner Stumpfe, another experienced negotiator.

MUSIC

■ The traditionally slack period following Christmas finds record company publicity chiefs delving deep into their fevered vocabulary to promote strange, new acts. Most dislocating are ROC, whose music is described as "a mutoid melisma of nature in the raw, sonically undercharged, lo-fi lounge jazz".

It is a fair enough description. Their eponymous album on the Setanta label is a bewitching mixture of dreamy pop and shocking sounds. You will be in the middle of a bland piece of easy listening when what sounds like the helicopter charge from *Apocalypse Now* floats over a dissonant harmonica solo.

■ Then there is Mr Bungle, a California band whose press release is in combative mode: "You and your generic code are the fabric which accumulates into self-organised garments that grasp into the dead tree of non-being". *Disco Volante* (London) is a wilfully bizarre, cacophonous album, with so few concessions to accessibility that it deserves to languish in the cultish obscurity for which it is destined.

■ It is a blessed relief to come to Céline Dion, whose *For You* may not be the most original piece of music in the world, but brings us softly back into the world of melody. The album is sung in the French of Dion's native Quebec, which is good news for linguistic purists, but bad for the rest of us who still find it difficult to reconcile the language with rock-and-roll.

■ A poignant moment at the beginning of *Judy Garland: A 25th Anniversary Retrospective* (Capitol), when young Dorothy wishes for "some place where there isn't any trouble" in her prelude to *Over The Rainbow*. All her great movie hits are here, and there is a well-annotated booklet, but by the time we get to a gruesome duet with Liza Minelli on *Hello Dolly*, we are all looking for a different place to be.

Peter Aspden

FILM AND VIDEO

■ There is a serious outbreak of falling stars this week: Hollywood's finest are tumbling *en masse* into Britain. *Heat* brings De Niro and Pacino together for the first time since *Godfather II*. Harrison Ford reprises *Sabrina*, the sweet-and-sour Bogart-Hepburn romance of the Fifties. And Whitney Houston, who made her starring debut with Kevin Costner's last box-offfice hit *The Bodyguard*, leads the feminist comedy-drama *Waiting To Exhale*.

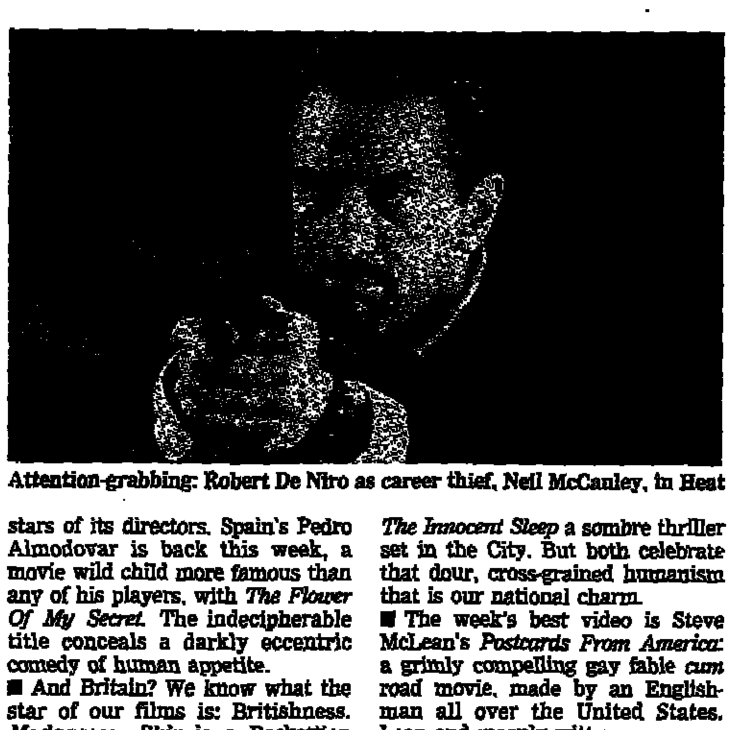
Who says the star system is dead? Only its workings have changed. Instead of playing the same role over and over, stars come out of different holes in the night sky. After boxers, deer hunters and taxi drivers, De Niro plays a master-thief to Pacino's cop in Michael Mann's acclaimed thriller. Harrison Ford trades bullwhip for romantic *bons mots* in Sydney Pollack's liked-by-some Billy Wilder revamp. And Miss Houston – well, what sight could be more heartening than that of a pop diva coming down to mix it with mere movie mortals?

■ Europe has few stars to call its own, and when it does they usually run off to Hollywood. So it makes stars of its directors. Spain's Pedro Almodovar is back this week, a movie wild child more famous than any of his players, with *The Flower Of My Secret*. The indecipherable title conceals a darkly eccentric comedy of human appetite.

■ And Britain? We know what the star of our films is: Britishness. *Madagascar Skin* is a Beckettian buddy movie set in the country and *The Innocent Sleep* a sombre thriller set in the City. But both celebrate that dour, cross-grained humanism that is our national charm.

■ The week's best video is Steve McLean's *Postcards From America*: a grimly compelling gay fable *cum* road movie, made by an Englishman all over the United States. Lean and meanly witty.

Nigel Andrews



Attention-grabbing: Robert De Niro as career thief, Neil McCauley, in Heat

MEDIA FUTURES

Drowning, not surfing

Net culture has intimidated Japan, writes **Richard Vadon**

At a press conference to reveal plans for an information infrastructure, the Japanese telecommunications minister was asked his e-mail address. Not only did he not have one, *he did not know what an electronic mailbox was.*

Japan is thought of as a world leader in computer technology, but when it comes to the Net, it is lagging behind the US, UK and Germany. A table of Net hosts correlated with Gross National Product ranks Japan between Slovenia and Ecuador. The Internet Society's 1995 figures show that Japan has 96,632 hosts, compared with 241,191 in the UK, 207,717 in Germany, and more than 2m in the US.

That gap – between Japan and its industrial competitors – is becoming important. Japan's press is full of articles about the "crisis", and books with titles like *The Threat of the Superhighway: The Danger of Annihilation facing the Japanese Information Industry* have appeared.

The obvious reason why the Japanese have not taken to the Net is the English language. More than 90 per cent of communications across the Net are in English. The Japanese find English difficult to learn and their own language is difficult to use on the Net. Nor are they widely computer literate: fewer than 10 per cent of offices are computerised compared with 42 per cent in the US. Similarly, in the US 52 per cent of personal computers are hooked into a network of some kind, but fewer than 9 per cent in Japan.

An important reason for low computer sales has been the lack of good localised software. The domestic software industry focuses on games or factory automation. Home-produced consumer level software is primitive. A package for the NEC computer line recently ran television ads emphasising that its word processing software now had lower case letters.

Yoshikazu Kurita, first secretary of the economic section at the Japanese Embassy in London, believes problems of language and computer literacy will be solved by the younger generation. He predicts that "in five to seven years we will have caught up with America".

The government is trying to use industrial policy to urge businesses to enter the Net. But the government does not understand the information age. The Ministry of International Trade and Industry has set up a group to study the impact of a networked society on Japanese business.

That betrays ignorance of the way the Net works. The Net has grown without top-down control. Government cannot dictate its development. Politicians like Al Gore, US vice-president, and Newt Gingrich, House of Representatives Speaker, realise this and put their trust in a new breed of entrepreneurs. Japan is trying to apply the policies it used with great success in manufacturing to the Net and related multimedia and service industries. In the 1960s and 1970s, the government identified areas that Japanese industry should concentrate on, such as consumer electronics and cars. Recently that strategy has been less effective.

"The Japanese government provides strong leadership and a rigid strategy," says Yasuki Hamano, an associate professor at the National Institute of Multimedia Education. "That is very dangerous."

Ironically, success in traditional industries has held Japan back. The recessions of the early '80s and '90s have acted as catalysts for change in America and Europe. In the West, new businesses and new industries have grown out of the rubble of manufacturing industry. Small businesses have become engines for economic growth in the West. Microsoft is the obvious example, but there are many others.

E-mail illustrates how Japanese business is failing to grasp the Net's implications. Darrell Berry, a multimedia designer responsible for the Outrageous Tokyo web site, says: "I have worked in organisations in Tokyo where the management have said 'But if we have e-mail, we can't control who is sending and receiving information'."

Berry's outsider's view on Japan is supported by Murota Masaki, the head of NTT (Japan's BT) Data in London. He thinks that the way e-mail has taken off in the West, with companies like Microsoft encouraging its employees to e-mail the managing director, could never happen in Japan. "Japanese companies are very hierarchical. The free opinion exchange that e-mail encourages conflicts with the hierarchy. The issue is control, at all levels. Power in Japan is a matter of age and seniority both socially and within the corporate world," he says.

That view is supported by the experience of Twics, the first IP-connected public access service in Japan. When the founders of Twics tried to set it up they faced bureaucratic opposition. Twics' Tim Burress says the problem was that they were challenging the entrenched way of doing things: "It took about a year for the first Japanese system to follow in our steps, but if we hadn't cut a path through all of these obstacles, who knows how much longer it would have taken."

Burress feels fundamental issues like cost need to be addressed before the language problem can be approached. The high cost of the Net in Japan has slowed growth and telecommunications regulations are rigid and anti-competitive. There is a struggle to reduce connection prices in a country where it costs $1,000 to get a phone line, and local calls are billed by the minute. The early Net providers priced services 5-10 times higher than comparable services in the US and Europe.

Vision Network's Superball project is one of several that aim to make the Net more friendly to Japanese. Vision Network's Michael Frank believes that Asian culture in general is implicated. "Asian group dynamics, communities and communication structures are not the same as those of the West. The Net, especially e-mail, newsgroups and muds (multi-user dimensions), is based on an American rational dialogue structure.

"Asian communication is much harder to translate to Ascii, due to its reliance on physical expression, an understanding of the relative status of group members, ritualised language etc. This is why Superball is closely tied to real spaces, real events and real people." One of these real spaces will be Japan's first cybercafe.

When the Japanese began to dominate manufacturing, Westerners studied their techniques. Many were tried in Britain and elsewhere, with limited success. The failure was attributed to Western workers' inability to adopt Japanese culture. Perhaps the same explanation may be given by the Japanese for their failure to match speeds on the infobahn.

Menu trees spoil Lotus garden

Tim Jackson

What does a VCR have in common with a spreadsheet? That sounds like the beginning of a bad joke. But the question is at the heart of a $100m court case that has just finished its six-year passage through the American legal system, ending in the Supreme Court. It is a technology case that has gripped the computer industry, so much that an entire *Who's Who* of luminaries, including companies, users' groups, law professors and economists, have proposed themselves as "friends of the court" to have their say.

The case arises from a dispute between Lotus Development and Borland International, developers of rival spreadsheets in the late 1980s. Lotus' accusation was that Borland's Quattro and QuattroPro products had breached the copyright it owned in its 1-2-3 package. But there was no claim that Borland had filched any Lotus computer code, nor any suggestion that there were behind-the-scenes similarities between the two products.

The simple question was whether Borland was free to use Lotus's "menu tree" – its arrangement in 50 different menus and submenus of the 469 commands by which users operated its program. Borland admitted having copied this tree; it argued that it needed to do so in order to encourage Lotus users who had devoted time and effort to understanding 1-2-3 to switch to its own spreadsheet, which contained its own quite different way of issuing commands.

Provocatively, the smaller software house claimed that Lotus had no valid copyright on which to base its claim. The disputed menu tree fell into a no-man's-land between copyright and patent law.

Copyrights are easy to obtain by writing a copyright notice; but they are tightly drawn to protect not ideas themselves, but their expression.

Patents are expensive and hard to obtain, and limited to 17 years – but more widely drawn. Borland argued it was absurd for Lotus to claim the status of a literary work for a menu tree consisting of combinations of single words such as "file" and "print". It claimed that the 1-2-3 menus were a system that belonged in a patent portfolio.

Borland tried to persuade the court to treat Lotus according to the lights of an 1879 case, *Baker v Selden*, in which a man tried to claim copyright over a double-entry book-keeping system that he had described in a book. The Supreme Court drew a distinction between his ideas themselves, which could not be copyrighted, and his explanation of them, which could.

But the US judges in the 1990s preferred a contemporary analogy: they drew a comparison between the 1-2-3 menus and the buttons used to operate a VCR. After filing in 1990, Lotus won at trial in the district court in 1992. The federal court of appeals reversed the ruling in 1995, arguing that the menus were uncopyrightable. Lotus appealed to the Supreme Court, which last week split down the middle on the issue and therefore left the appeal ruling intact without providing binding guidance for future cases.

It was not only the case's length that was remarkable. Although the legal fees were modest by American standards – Borland probably spent less than $10m – it distracted the attention of both litigants from the more important changes that were taking place in the market.

While Borland, Lotus and the rest of the world were slugging it out in court, Bill Gates and his crew at Microsoft were busily taking over the market. Making similar use of Lotus's menu structure without attracting a lawsuit, and taking full advantage of the market trend towards buying "suites" of software instead of stand-alone packages, Microsoft's Excel dislodged 1-2-3 from its pedestal to become the world's bestselling spreadsheet.

While the case continued, Borland sold its Quattro products to Novell, and Lotus itself was swallowed up by International Business Machines. An even greater irony was a further market change during the period. The menu structure that the two litigants fought over has now become secondary to graphical interfaces. Most users now are more concerned with the placing and design of icons on the screen.

So was the computer industry wrong to take such interest in the case? Not at all. Even though the copyrightability of graphical interfaces may be less in dispute, there are plenty of analogous issues and big businesses that will still await a clear signal from the Supreme Court.

Among the applications affected will be systems of voice prompts on telephone systems, such as for electronic banking, and also the applications programming interfaces (APIs) used by spreadsheets and other programs when they interact with an operating system. More important still is the question of copyright over the instruction set of microprocessors. At present, Intel dominates the world's supply of microprocessors with its x86 architecture – and it has used skilful litigation to discourage others from trampling too much on its patch. With copyright protection for the set of instructions its processors obey, Intel might be able to achieve a full monopoly almost overnight. That is something no other company in the computer industry would wish to see. The next copyright case after *Lotus v Borland* is likely to provide even more lucrative work for Silicon Valley's lawyers.

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Battle to block porn on the Net

Louise Kehoe on programs to limit the reception of 'inappropriate material'

Pornography on the Internet is worrying parents of young cyber sleuths and prompting heated debate between advocates of "free speech" and those who favour censorship of electronic publishing.

In the US, Congress is debating a bill that would make illegal the transmission of "indecent" material over computer networks. In Germany, a Munich prosecutor last month insisted that CompuServe block access to sexually explicit Internet discussion groups from its online service. In China, government officials have weighed in with warnings against Internet porn.

Meanwhile, software ventures offering programs that block the reception of "inappropriate" material from the Internet are thriving as awareness of the potential problem spreads.

Employers, concerned about their potential liability for condoning the display of sexually explicit material in the workplace, as well as loss of productivity, are among those beginning to use the blocking programs.

Within the computer industry, programs that give computer users the ability to "self censor" are favoured over government controls, which many fear could stifle the growth of the free-wheeling Internet.

Bill Duvall, chief executive of SurfWatch Software, and a pioneer of Internet development, says: "Twenty-five years ago when I wrote the original software which allowed access to the Internet, we had no idea what kind of information would be available.

"As Congress continues to debate the key issues of protecting our children, while maintaining the rights of adults, there is the potential of great harm to the Internet."

SurfWatch, based in Los Altos, California, employs students from nearby Stanford University to patrol the Internet in search of smut.

The company's software provides a predefined list of dubious Web sites and discussion groups, which are blocked. Updates are published monthly.

Keeping up with the proliferation of Internet sites is, however, impossible, and SurfWatch claims only to "reduce" access to sexually explicit material.

Cyber Patrol, published by Microsystems, takes a similar approach, with a "CyberNOT Block List" of researched Internet sites containing questionable material.

An alternative method used in Net Nanny, published by Trove Investments of Vancouver, Canada, is to block all information containing trigger words chosen by individual computer users.

Graham Heal, manager of business development for Net Nanny, says: "We feel that the parent, the school or the employer is the one best suited to determine what their kids, or employees, should have access to." The program enables users to filter out any type of undesirable information, and to prevent young Net users from transmitting credit card numbers or their names and addresses, he says.

Problems arise, however, if common terms are added to the "banned" list. Moreover, determined purveyors of cyberporn tend to describe their wares in innocent terms to allude such filters. The only way to be certain no pornographic pictures reach your computer screen, therefore, is to ban the reception of all graphics, severely limiting use of the Internet's many valuable resources.

Such drastic measures are generally unwarranted. The vast majority of Internet sites are "clean".

Parents worried that their offspring may deliberately seek out offensive material on the Internet can, however, monitor computer use with programs such as WinWatch Home, developed by Humphries Wohlrab and Associates.

The biggest deterrent to adolescent exploration of cybersex may, however, be the rapid commercialisation of the Internet. Cyberporn is becoming expensive as sites offering sexual graphics begin to charge hefty fees for their wares.

Another significant development aimed at protecting the innocence of Internet users is a proposed rating system, supported by several leading computer and software companies. Much like a film rating system, it would establish guidelines to determine the suitability of sites on the World Wide Web for different age groups.

While public attention has been focused on cyberporn, a potentially greater danger lurks where it may be least expected: in online services specifically designed for children.

The dangers are illustrated in a recent message posted on America Online by the mother of a nine-year-old girl, "The chat room said 'North Pole, chat with Santa', so I thought it would be OK… there was someone online who made sexually suggestive remarks and someone who asked her for her name and address."

Cyber sightings

by Stephen McGookin

● A recent NOP survey commissioned by Yellow Pages, the UK phone directory, found that half of those who were non-Internet users said they were "well-informed" about the Net, but believed it to be complex and difficult to use. With this in mind, the company has launched Yell (*www.yell.co.uk*), a UK-based, searchable information service with summaries on nearly 3,000 UK Web sites, sorted by region and subject; and including a Film Finder feature, which gives details of *programmes* at 400 cinemas throughout the country.

● The US-Saudi Arabian Business Council (*www.us-saudi-business.org*) has information on trade links as well as Saudi economic data. Has links to some heavy US hitters which are council members, such as Boeing, Morgan Stanley, Citibank and AT&T.

● The Association for Global Business has details of 1996, including a call for papers and details of its publication The Journal for Global Business, at its site: *http://sun1.iusb.edu.faculty/dagbetsi/globhome/globus.html* (phew!).

● Greatwall Netcenter (*www.win.net/greatwall*) is a source for Chinese business and financial news, with Chinese and English translations of Chinese newspapers, a Chinese business yellow pages and an investors' club run by the US-based First Associated Securities Group.

● The CMS Business Intelligence Catalogue (*www.textor.com/cms*) is a searchable global list of more than 500 specialist business-alert publications and services, indexed by subject and region.

● Gordon House Asset Management (*http://gham.co.uk/gham*) has details of its Optimal Fund. At these sorts of sites I like to click down the directors' biographies, one of whom here happens to be Rupert Pennant-Rea.

● The Labor Policy Association Online (*www.lpa.org/lpa/index.html*) is the site for the public policy advocacy organisation of the senior human resources executives (personnel officers) of big US corporations. Informative and well laid out.

● The Association of Investment Trust Companies (*www.iii.co.uk/aitc*) is one of the new sites available through Interactive Investor – along with Global Asset Management, Micropal and FT Magazines. The AITC site has a directory and mini-profile of UK investment trusts. Well worth a browse.

● If you are a fan of author Salman Rushdie, Robert Daeley's site (*www.empirenet.com/rdaeley/authors/rushdie.html*) has links to lots of interesting material, including Subir Grewal's excellent Rushdie page. No e-mail address for the elusive one, though…

● A site for tall people (*www.bluplanet.com/tallweb*), run by Blue Planet Publishing, has information about clubs and events for tall people (6ft 2in is the usual qualifying limit, but who is to know?), and tips on where to sit in aircraft, which cars to buy and which to avoid, as well as lists of clothing and furniture suppliers, both shops and mail order.

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MANAGEMENT

After years of cost cutting, companies are attempting to foster a culture of creativity to stimulate growth, writes Vanessa Houlder

Innovation under the spotlight

After years of cost-cutting, rationalisation and restructuring, the corporate agenda is becoming dominated by the quest for innovation. "Any intelligent corporate strategy must have innovation at its very heart," declared Walter Kunerth, executive vice-president of Siemens at the recent launch of a company initiative to stimulate innovation.

These sentiments, which would strike a chord in many boardrooms across the world, might once have been considered platitudinous. But a distinct note of anxiety is now discernible in discussions about innovation.

In part, this stems from the recognition that improved efficiency is no substitute for sales growth. In addition, the pace of innovation has become more frantic. Shorter product life cycles, the deregulation of markets, increased global competition and the relentless introduction of innovative products and services, often from previously unknown companies, have created a need to accelerate innovation.

Siemens' response to these pressures is to encourage every member of the staff to be more innovative. It has launched an innovation contest, an inventor's competition, motivation workshops and special training for its staff.

Siemens is not alone in adopting this type of measure to foster a culture of innovation. Full-blown innovation schemes have been introduced by companies including BP Chemical, BOC, 3M and Elf Aquitaine, while many others stress innovation as a corporate goal.

But encouraging individuals to be more creative only addresses part of the problem that companies have with innovation. Much of the difficulty lies in establishing a clear link between individual creativity and corporate success.

The debate about innovation extends to nearly all aspects of a company's operation. Over the past few years, a plethora of seminars, research and government initiatives have examined what it takes to cultivate and harness the creativity of employees.

The issues are only partially understood, according to Mark Brown, who was recently appointed to the newly established chair of innovation at Henley Management College. He is about to embark on a detailed study of the factors, ranging from empowerment to the willingness to applaud mistakes, that enhance a company's ability to innovate.

The debate about innovation management is particularly intense in companies that are heavily dependent on research and development. European and Japanese technology companies are losing confidence in existing approaches to innovation and are searching for new concepts, said Hans Gunter Danielmeyer, senior vice-president of Siemens, when he addressed the European Industrial Research Management Association last year. "We have a lot of company restructuring but we do not yet know for sure what the next model of innovation will be," he said.

The discontent with traditional approaches largely stems from the frequent failure of companies to reap the benefits from innovative ideas. The travails of Apple Computer, which is widely credited with establishing a technological lead on its rivals, is one of many examples where the best technical solution has apparently not prevailed in the market. The UK's corporate history is scattered with innovative companies that failed to capitalise on their inventions – most notably EMI's ill-fated invention of scanner technology.

A recently published OECD study on Innovation and Competitive Advantage is one of several academic studies which have failed to find a positive link between innovation and corporate performance. But why is this?

Innovation is costly, uncertain, hard to manage and vulnerable to exploitation by competitors, suppliers and customers, according to John Kay, professor of economics at London Business School, in his book *Foundations of Corporate Success*. "A common business mistake is to believe that innovation can compensate for competitive disadvantages in other areas," he says.

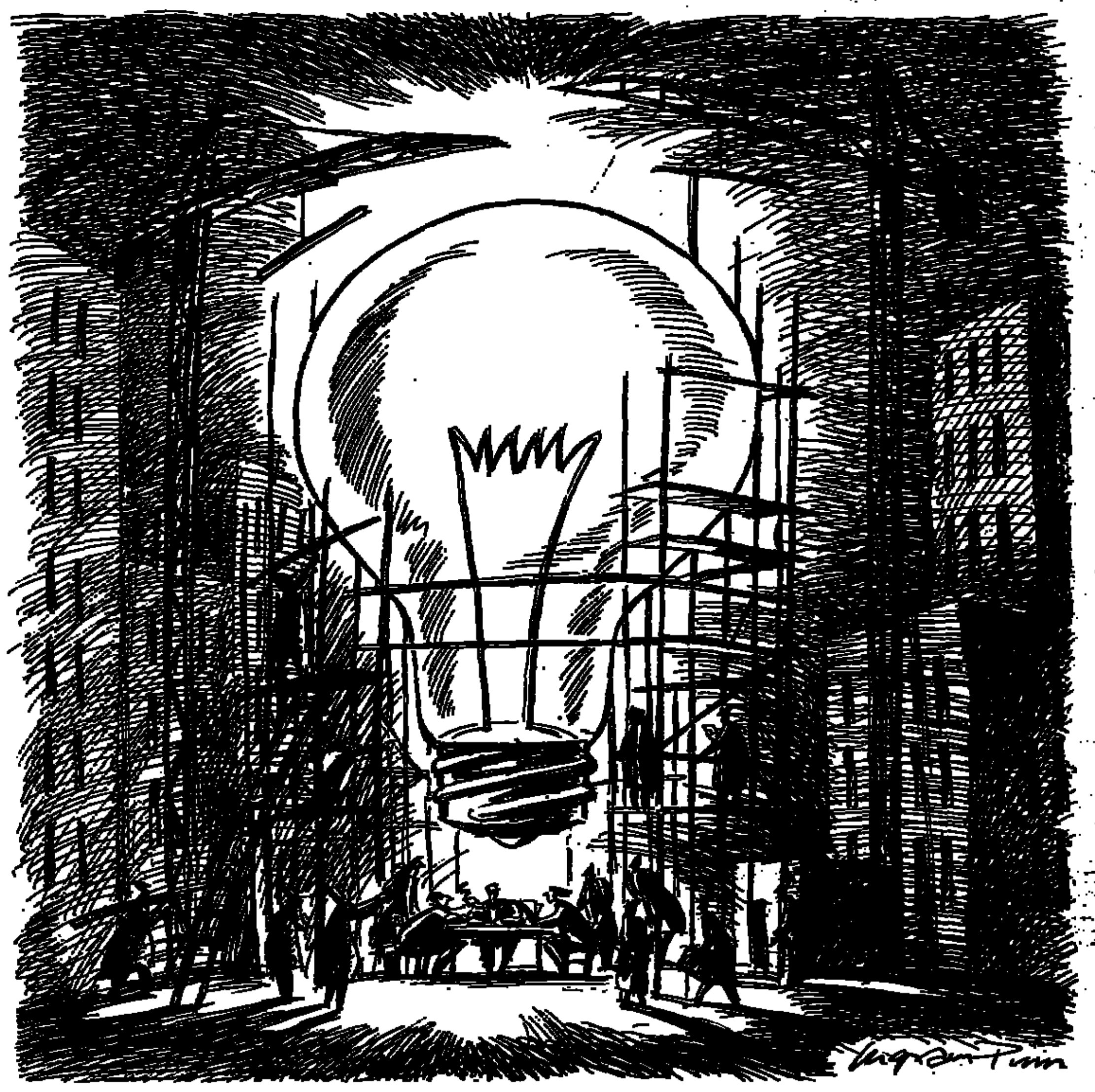
A still common misconception is to think of innovation as a purely technical issue. Akio Morita, the founder of Sony, has famously dismissed descriptions of the Walkman as an innovative marvel. "Frankly, it did not contain any breakthrough technology. Its success was built on product planning and marketing," he says.

But the belief in an "ivory tower" approach to innovation persists, according to the Centre for Exploitation of Science and Technology, a London-based organisation jointly funded by industry and government.

"The linear model of innovation where R&D generates technology which flows downstream into profitable new products and processes ... is hard to dislodge from much of the thinking behind, and management of, public and private R&D," it says in its recent report on Bridging the Innovation Gap.

"The preoccupation with R&D rather than the totality of innovation management remains a serious barrier to progress with competitiveness," it argues. An important remedy, it suggests, is organisational re-design, involving the break-down of barriers between functional specialisms and operating divisions.

Organisational issues are at the heart of new thinking about the management of innovation. "The organisational structures and values which concentrate on the productivity of technical innovation in isolation can actually harm the firm," says Douglas Fraser, a consultant and former industrial director of the national Economic Development Office. "Only if R&D staff spend time with their customers will they really understand the problems that need to be solved."



This recommendation is supported by many innovative companies, and not just those concerned with technology. Hasbro, the toy company, which draws a third of its turnover each year from new products, goes to great lengths to ensure that its product designers are in touch with children. It has set up a "fun lab" – a crèche with two-way mirrors that accommodates 25 children each day – next to its R&D department.

"Innovative companies don't rely on third-party research for insight into their customers," said Simon Gardner, head of international marketing, at a conference on innovation organised by PDP International, a product development company, last year.

But Gardner admits that capturing the value of the new ideas is harder than generating them. Part of the problem, he thinks, is a cultural one. "I find generally engineering people don't get on with marketing people," he says.

It is a familiar complaint. In an international survey conducted by Arthur D Little of product innovation processes, the most frequently mentioned problems related to how people in different parts of the organisation worked together. Marketing and R&D were considered to have a particularly troubled relationship.

The recognition of these problems has spurred companies into trying to break down the cultural divide between different parts of the organisation. Some draw inspiration from Japan, where companies often rotate staff through different functions and use cross-functional teams. "In Japan, marketing people without an engineering background are not respected," says Kiyonori Sakakibara, associate professor of new product development at London Business School.

The multi-functional team approach is one of the mechanisms that support the incremental innovation for which Japan is famous, according to Sakakibara. This strategy is characterised by "the more new products the better", rather than "the more innovative, the better", he says.

The merits of incremental innovation in securing market share and warding off new competitors have become widely recognised. "What matters in the world auto industry and what matters in every other dynamic industry is not the single successful product, but the continuous development of outstanding products," says Kim Clark of Harvard Business School, in *The Product Development Challenge*, a book published by the Harvard Business School Press.

Arthur D Little, in its recently published book, *Product Juggernauts*, suggests other reasons to focus on modest innovations, rather than radically new concepts and designs. The increasing competition and growing complexity of technology in some industries may mean that it takes too long to solve the teething problems of a truly innovative product.

But there may also be dangers in focusing on incremental innovation at the expense of radical innovations.

Frank Milton of consultants Coopers & Lybrand blames the record of British companies on innovation on their focus on incremental innovation, rather than seeking a world-beating "quantum leap" forward. "The biggest breakthroughs tend to come from smaller companies that do not have such a vested interest in the status quo," he says.

But can managers, particularly those of large companies, dictate the nature of innovation within their businesses? Arthur D Little argues that some companies, such as Canon, Du Pont, Philips and Sony, show that breakthroughs do flourish in companies that prepare for them. They require top management with a strong vision about where and how to innovate, a strong technological culture and a very clear sense of the customer, it says.

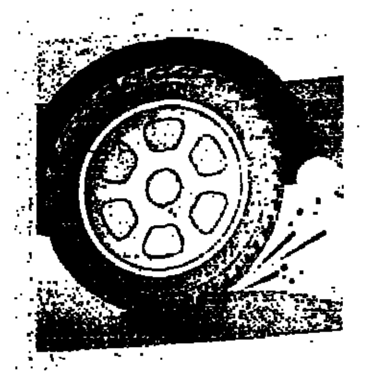
But breakthroughs resulting from a formal top-down innovation process by full management support are rare. "Many breakthroughs actually happen as part of an unplanned, spontaneous process in the lower ranks of the company, without immediate top management intervention, or sometimes in spite of it."

This kind of breakthrough does not happen by chance. It depends on the creation of a tradition of innovation and entrepreneurship. 3M, the diversified industrial company, is the classic example of this type of company. Its methods of encouraging innovation, such as its rule that technicians are free to devote 15 per cent of their time to any research project that they wish, have resulted in famous products such as the Post-it Note Pad, which, says ADL, "is the singular example of a slow but ultimately successful bottom-up breakthrough".

But the example of 3M illustrates the dilemma facing businesses that are trying to foster innovation while coping with increasingly competitive markets. The lifelong career, which is one of the central planks of 3M's innovation philosophy, was called into question last November when 3M announced a demerger, the closure of a business and 5,000 job losses. Explaining why it did not want any further demergers, it said: "You cannot ask for innovation from people while they're worried about their jobs."

This highlights one of the central concerns facing companies as they struggle to be more innovative, while paying close attention to costs. Exhorting employees to be more innovative at a time when they are complaining of overwork and job insecurity may be a waste of effort.

The risk facing companies is that they get locked into a cycle in which an inability to innovate damages competitiveness, causing job cuts that still further damage innovation. The search for better ways to combine creativity and efficiency to counter this cycle could become one of the central management tasks of the next few years.



FAST TRACK

TFS

Thomson Financial Services, one of the fastest-growing financial information providers in today's market, is out to get attention with its latest newspaper advertisement for new recruits. The full-page ad features an executive with a briefcase skiing recklessly down a steep slope, and highlights words such as "entrepreneurial".

The image reflects the way president Mason Slaine thinks about the company and himself. Although he has headed Thomson Financial Services for more than a year, Slaine says he has never seen himself as a big company employee. "I still think of myself as an entrepreneur, only now I'm doing it at Thomson."

The entrepreneurial spirit comes naturally to Slaine. In the 1980s he established and sold Wall Street & Technology, Investment Dealers' Digest and Traders' Magazine. His last venture was magazine publisher Rand Communications, which he sold to the Thomson Corporation, the Toronto-based group that is TFS's parent. After making the deal he was invited to join the group as an employee. Slaine says his mission has been to infuse his [illegible] spirit into TFS. [illegible] the company has [illegible] on the aggressiveness of [illegible] entrepreneurs. Analysts say the group has now surpassed competitor Bloomberg in market share, and is edging closer to Dow Jones' Telerate Service; estimated 1995 revenues, at \$600m (£390m), are up nearly 20 per cent from last year, and nearly 50 per cent from 1994.

TFS has been highly acquisitive over the last year. The group purchased seven companies in 1995 alone and controls the highly visible American Banker and IFR Publishing.

To sustain his high growth strategy in a competitive market, Slaine treats TFS as a collection of small niche players. [illegible] Boston headquarters, each operation is physically organised into separate areas to help create a small-company atmosphere.

Growing profits are only part of what Slaine expects from each division. Each manager is expected to sniff out acquisition and start-up opportunities. Once managers have identified a likely candidate, they appeal to Slaine for funding. In most cases, the acquisitions are small. No 1995 purchase, for instance, exceeded \$20m. "We look for small players that we can grow into bigger players," he says.

When not doling out money for acquisitions and keeping an eye on the separate divisions' performance, Slaine spends his time recruiting employees. "Getting the best people to work here is the most important part of this business," says Slaine. He wants to attract types who, like himself, would not normally see themselves as part of a big company.

TFS heavily promotes its unconventional image. Its Boston headquarters are located in a neighbourhood favoured by artists. Few employees wear suits and most employees are under the age of 40. "We want young, aggressive people, ones who might be out starting their own business if they didn't join Thomson," says Slaine. "Here, they can get the best of both worlds: the chance to take risks and reap financial awards, but without the problems the entrepreneur has to face in raising capital."

Victoria Griffith

Rules for a happy executive marriage

Lucy Kellaway

Being married is not easy. It is not easy living in close proximity with someone, dealing with their little ways, deciding things together, compromising, managing children.

But neither can it be easy to co-exist with another person at the top of a company. Working in close proximity, dealing with their little ways, deciding things together, compromising, managing the workforce. At least if you are married you presumably liked the person at the outset; which is not necessarily the case with chairman/chief executive couples.

It is therefore surprising that while nearly one in two marriages ends in divorce, most of these corporate pairings seem to last the distance. When Anthony Shearer and David Morgan of M&G parted company last week, the news that they had suffered a "clash of personalities" was treated as an amazing occurrence. Other boardroom divorces – such as that between the Cable and Wireless ex-execs Lord Young and James Ross – have met similar shocked responses.

So are we to assume that most company directors are grown-up people who put business first and are able to bury their personal differences? I find this hard to believe. A more probable explanation is that when problems occur they get hushed up, and if one or other party has to leave, it is said to be for "personal reasons". The key to the peaceful co-existence of senior executives may be to lay down clear rules stating who is responsible for what. Thus to have an executive chairman and a chief executive (as at C&W) or to have a chief operating officer and a managing director (as at M&G) is to ask for trouble.

There is a lesson here for marriages – if each party could agree on their roles and responsibilities at the beginning maybe there would be fewer problems later on.

There have been 400 British newspaper articles mentioning the word "stakeholder" in the last year, according to the FT's computer database. This is twice as many as in the preceding 12 months and at least seven times as many as five years ago. Given the amount of space allocated to this ugly word and given the hopes the Labour party is pinning on it, it would be nice if we could agree on what it means. My dictionary says a stakeholder is one who holds the stakes of a wager, which is not particularly helpful. Whatever it means, the word has an emotional charge: to some it suggests a fair society, to others it heralds the terrifying return of powerful trade unions.

For me it is neither good nor bad, and refers to a particular corporate model in which companies recognise the interests of all their "stakeholders": employees, shareholders, customers and suppliers. There is nothing revolutionary about this, companies have always known that they have interests to balance. The rub comes when the demands of different groups are in conflict, but the concept of the stakeholder has nothing to say about who should take priority.

Until further light is cast on the matter I am going to continue to think of a stake primarily as the thing in my garden that keeps my apple trees straight.

I have just been reading about a comprehensive new study into what the young people of today think. Research International has combed the whole world talking to 20-somethings and has reached some startling conclusions. Young people are individuals! They all think differently! They do not like having their intelligence insulted!

Before Research International decides to follow the success of this report (which it is selling for £800) with a similar one into what middle-aged or old people think, let me pre-empt them. Middle-aged people, and old people, are all different too!

A nice man phoned up last week inviting me to spend the weekend in Cannes. He explained his company was holding a meeting of its managers there, and he wondered if I would come along to talk to their wives. I said no, but I should have gone – if only to witness this odd new trend in his 'n' hers conferences.

Companies seem to be realising that if they want to lure their executives away for a bit of extra-curricular brainstorming they need to offer an incentive. Travel is no attraction to executives who spend half their lives on aeroplanes, and who hardly ever see their families. So companies have hit on the brilliant solution that wives (for nearly always they *are* wives) should come too.

This strikes me as an expensive option, unless of course companies are trying to make amends to the wives for the constant absence of their husbands. In that case putting them on an aircraft and cooping them all up together in a foreign hotel to listen to a journalist talking about business trends would not seem the best way of going about it.

مكرر من الاصل

BUSINESS EDUCATION

Taxing tales

Students paying for their own full-time MBA course could soon be able to claim their fees against tax if draft legislation from the UK's Inland Revenue is adopted. But students on part-time or distance learning courses – some 80 per cent of MBA students in the UK – would be excluded, as would students whose courses lasted for longer than a year.

Business schools are now lobbying for all MBA students to get the tax relief. "We've been campaigning for years and years to get tax relief for self-financing students. Employers who pay course fees get tax relief so it seems unfair that students don't," says Deborah Harry, financial controller at Cranfield School of Management, and a representative of the Business Schools' Finance Forum.

The forum has written to both the Inland Revenue and Gillian Shephard, education and employment secretary, to try to have the tax relief extended.

The new rules will come into effect in May.

Della Bradshaw

Della Bradshaw looks at the kinds of education specifically designed for chief executives

Back to school for top dogs

Once executives had reached the top of the corporation they used to be able to rest on their laurels. But in these days of cross-border mergers, technology implementation and the emphasis on issues of corporate governance, many European directors now find they have to take decisions for which their early training and qualifications have left them ill-prepared.

The result has been a burgeoning demand for business school courses specifically designed for managing directors and chief executive officers. IMD, in Lausanne, which specialises in executive education courses, reports that 1995 was its best year for such courses. In the UK, the Institute of Directors saw a 30 per cent increase in bookings at its Centre for Director Development. Insead, in Fontainebleau, has three courses aimed specifically at this top league of business people; five years ago it had none.

"There is a realisation that the world is changing so rapidly that executives need to retrain several times during their career," says consultant Philip Sadler, formerly chief executive of Ashridge Management College. "Leadership skills are more important than management skills and executives have to learn the difference between managing and leading."

As a result many courses have the word leadership in the title – Insead's Leadership in Organisation, for example, which at three weeks is unusually long for a top executive course. Arnoud De Meyer, associate dean of executive education at Insead, says it is designed for directors to "find their own management style". Top managers, he says, are very alone. "They are very good managers but they have no one to bounce ideas off."

Unlike traditional executive education, these top tier courses throw away the textbook and the case study and pitch the executives head to head. Academics channel the discussion. To ensure the group will work together, executives on Insead's five-day Avira programme, for example, are carefully interviewed by course organiser Henri-Claude de Bettignies before they are even accepted on the programme.

De Meyer believes such courses have replaced the traditional conference circuit. "The much more informal or social get-togethers are just not enough any more."

Nevertheless, executive briefings from a range of consultants are still a popular option. CSC Index's Senior Management Interchanges programme, for example, is a meeting-based course intended to expose 25 to 40 managers at a time to the latest theories from academics, business people and assorted gurus. Each "interchange" comprises three half-day sessions of a prepared talk and discussion.

Participating companies sponsor the 10 events a year to the tune of £12,000 and can send two delegates to each one. One such sponsoring company is the London and Manchester Group, the financial services company. Group chief executive Tom Pyne believes the £12,000 was money well spent.

With his company undergoing a rapid programme of change, Pyne wanted to use the SMI as a means of management training and wanted his key executives to coin a "common vocabulary".

"I wanted each of the executive team to be exposed to international speakers of the calibre you'd get at a top business school," he explains.

Sadler believes such meeting-based courses can be effective, provided, as he puts it, they are not simply "top managers brought together just to agree with each other".

NEWS FROM CAMPUS

Management training forum gets new boss

Derek Wanless, the 48-year-old group chief executive of the NatWest Group, has succeeded Sir Bob Reid as chairman of the National Forum for Management Education and Development.

The NFMED was set up in 1988 to counteract the low level of investment in management training by UK companies and is made up of representatives from industry, academe and government. *NFMED: UK, (0)171 872 9000.*

Courses get a scientific visit

In an attempt to increase the knowledge of science and technology in future UK business leaders, the London-based Institute of Physics is to appoint a visiting Industrial Fellow to lecture on the subject to students at Warwick Business School.

The fellow will spend two to three weeks a year lecturing, especially to MBA students.

The first fellowship is funded by the institute, but if the scheme is successful external funding will be sought to extend the scheme to other business schools. *Institute of Physics: UK, (0)171 235 6111.*

Teachers in union with workforce

The Cranfield School of Management will tomorrow inaugurate the school's Centre for Strategic Trade Union Management.

The formation of the centre follows research in Britain and elsewhere in Europe recognising that trade unions need strategy, financial management and marketing skills similar to commercial companies. *Cranfield: UK, (0)1234 751122.*

The continuing rise of the entrepreneur

Courses in entrepreneurship are all the rage according to the latest statistics from the J L Kellogg Graduate School of Management at Northwestern University.

Since autumn 1994 there has been an 86 per cent increase in students taking courses in the entrepreneurship programme at the school. *Kellogg: US, 708 491 3300.*

BUSINESS EDUCATION

CONFERENCES & EXHIBITIONS

ARCHITECTURE / SPORT

An engineer of dreams who worked in secret

It is almost as though he worked in secret, because as an engineer he was a servant of architecture. Sir Ove Arup was not, as you might imagine from his name, a leading character in *The Lord of the Rings*, but he toiled with troglodytic invisibility as one of the finest engineers that ever lived.

At the Architectural Association in London the centenary of his birth is being celebrated. It does not seem possible that he died in 1988, still working as one of the wisest forces in the architectural world.

The truth about modern architecture is that it is as nothing without the skill of engineers. Sir Ove Arup and his company made almost all the best known contemporary buildings work. As the centenary exhibition at the AA shows, he was one of the great problem solvers of our times. He was both a highly creative engineer and a philosopher.

He had studied philosophy as a young man, a study which gave him that special kind of speculative mind that saw problems as routes to solutions.

He was undaunted by the immense range of buildings that his intellectual and practical activity supported, from the Sydney Opera House to the Lloyd's Building.

From his archives we see this man of calm common sense exercising his talents to solve some of the problems of the Second World War – temporary housing and bomb shelters were only two areas. But before the war he started a long association with the architects of the Modern Movement who were beginning to flourish in England in the 1930s.

The man who influenced that generation was Berthold Lubetkin, leader of the Tecton architecture company. Arup was to build with Tecton not just the gorilla house at the London Zoo but also the magnificent penguin pool. This pool with its intersecting curved ramps of reinforced concrete was to become an icon of modern design in Britain.

There is no doubt of the importance of the engineer in this design which is a demonstration of the nature of concrete and the establishment of the structural truth that the slab was right for concrete cast on the site.

To Arup, Lubetkin was an artist possessed of a passion for perfection. It was this early experience of working alongside an artist/architect that equipped Arup to work with an entire generation of highly talented architectural prima donnas.

In 1951, a firm known as The Architects' Co-partnership completed an amazing building at Brecon in Wales. This was the Brynmawr Rubber Factory where the engineer had a direct influence upon the design of the building.

That huge factory covers the space with a series of concrete vaults that give the interior the sensation of a cathedral of concrete. Arup felt "that the best architecture in reinforced concrete is generally to be found among those big engineering structures of today rather than an ordinary building planned by an architect".

I am sure he was right and it was his sense of what was appropriate that made him such a sensitive engineer – indeed it made him an artist among engineers.

He was to work at the Festival of Britain and on the huge aircraft hangars at Duxford. That strange pioneering school, the Hunstanton Secondary Modern School in Norfolk by Alison and Peter Smithson, and the Mayfield School in Putney with its neighbouring Alton Estate at Roehampton, would not have stood the test of time so well without the skills of Arup. But he was to work on many less utilitarian buildings.

The Sydney Opera House was the supreme test. The architect, Jorn Utzon, had brilliant ideas and highly original ones but he could not make it work until he was rescued by Arup.

In Coventry Cathedral, Arup invented the brilliant roof of the nave which is like the structure of the eye of an insect.

Perhaps the simplest, but one of the most successful of Arup's designs, is the footbridge in Durham – the last project that Sir Ove himself designed in every detail. But his company, Arup, was to go on and on and convincingly encourage the most avant garde and adventurous architects.

Sir Norman Foster and Sir Richard Rogers both enjoy the support of the Arup company. Sir Michael Hopkins too, with his experiments in Teflon and polycarbonate, relies heavily upon the work of Arup.

The character of the man shows in all his works. He was a clear thinker with immense integrity and modesty. There is, as yet no biography, but there is no doubt that he is an important figure in the shaping of the twentieth century world.

Colin Amery

The intersecting ramps of curved concrete at London Zoo's penguin pool – an icon of modern design in Britain Hugh Routledge

Mr Murdoch's devil in disguise

One subject has dominated the sports letters pages of Britain's serious newspapers since the beginning of 1996. Not the woeful performance of the English cricket team in South Africa. Not even the identity of the next coach to our national football team. The burning issue has been sport on television; who broadcasts it and who pays for it.

One person in particular would be perfect for the role of Antichrist as far as Angry of Andover and Disgusted of Doncaster are concerned, if they did but know his name. David Elstein is the man Rupert Murdoch sends in when he wants to secure yet another sports series or tournament for his satellite station British Sky Broadcasting.

Whether it is premiership football, overseas test cricket or international golf, it is now common knowledge that the sports-fan viewer had better take out a Sky subscription if they want to see the best. Having had sport broadcast free (ITV) or within the overall licence fee (BBC) for a generation or more, there is now a viewer backlash that is deeply resentful of what it sees as the Murdoch millions gobbling up and ring-fencing the best of sport to create a hugely-profitable specialist sports channel.

Last week's House of Lords debate on the Broadcasting Bill had a distinct sub-text of whether sport needs saving from Murdoch. Yet far from being defensive Elstein has decided to go on the offensive, laying into the politicians who sniff at popularity and the BBC which, he claims, wants to have sport on the cheap.

"Politicians think this is a free-lunch issue, a vote-winner where they say we will give the public what they want which is free access to these events," argues Elstein. "What they don't say is that we will thereby impoverish sport.

"Sport is expected to subsidise the BBC, which has a guaranteed income of £1.7bn per year. Television has lots of money available if it chooses to spend it. The BBC is very proud of the fact that it spends less per hour on sport than almost any other programme category. Only education is less per hour. The BBC is affluent and makes its own choices."

Keith Wheatley

One could deduce, correctly, that Elstein is contemptuous of the way the Corporation has misread the priorities of its viewers and failed to open its cheque book to purchase what the public wants to watch.

The sudden and dramatic loss of Grand Prix motor racing to the ITV commercial channel is a case in point. Jonathan Martin, the BBC's head of sport, has been quoted as saying the news was a bombshell and its arrival among the worst 10 minutes of his life. Elstein says that Sky was not specifically interested in F1 but unable to believe that the BBC had played its hand so ineptly: "The Beeb were very slow off the mark. If they hadn't spotted that their contract was running out, more fool them."

Yet for all his lambasting of the BBC, Elstein is very far from being some kind of punk broadcaster, the lad from tabloid telly. He trained at the BBC and was a successful independent producer before becoming a programmer at London Weekend Television in its cultural and political heyday. More than one commentator has tipped Elstein as a possible director general at the Corporation, now that his old boss Sir Christopher Bland has become chairman.

He argues that if the politicians decide in favour of extending the list of scheduled sports events that must be made available to terrestrial broadcasters, the sports bodies themselves will fight back. Having had a taste of the open market, they are unlikely to want to return to the days of a single bidder and tiny rights fees.

"The notion that Westminster can protect sport from bullies with satellite dishes is bogus," insists Elstein. "Until Sky came along the Test and County Cricket Board had one customer who dictated the terms of the deal. The cricket bodies had to accept whatever they were given. Sky comes along and there's a market," he says.

"Sky still don't have any live domestic Tests. The TCCB is delighted. It's now got bargaining power and a real income to spend on grass roots cricket. The natural outcome of any attempt to extend the Broadcasting Act list or encompass subscription television will be an outcry from sport and attempts by governing bodies to be de-listed."

Under the present legislation a subscription television station such as Sky Sport would be able to bid for a "listed" event but a pay-per-view channel would not. Britain has not got such an operation yet. Elstein says we will have one within weeks and probably for the sports event of the year.

"Technically we're there. We'll have a PPV event in March, hopefully the Bruno v Tyson fight. It might be a movie or a concert but if the negotiations go well it will be the Tyson fight. The reason is that it simply will not be available live on TV any other way. Don King will not sell the rights for live TV, terrestrial or subscription," explained Elstein. "Billing is all done by electronic authorisation, done over the air per event, built into the smart card already. It's not as sophisticated as we'll have in digital but we have a working adequate model."

The US has had pay-per-view for years but in Britain, with its tradition of free-to-air broadcasting, it has been regarded nervously, especially in the current legislative climate. Elstein is characteristically unrepentant and bullish.

"In the final analysis we'll do what's in the interest of our consumers and our business," he says. As it happens the Saturday of the Bruno-Tyson fight is the weekend before the Broadcasting Bill goes to the Commons. Our view is to take these things head-on."

"We need to get people to understand that the Tyson fight as PPV is a bonus not a loss. We're bringing PPV out of the cinema into the home. Instead of X quid per head to go to the Odeon on a wet night at 4am you pay once to see it at home with family and friends."

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
BSS 6.5p
Banco Real 10¼% Nts 1997 $512.50
Bellway 5.25p
Birmingham Midshires Bldg Scty FRN 1998 £177.02
Charles Sidney 2.4p
Darby 0.9p
Drummond 0.4p
Electrocomponents 2p
Euromoney Publications 29.5p
Exchequer 12% 1999/2000 £6.0
Ferraris 1.4p
Invesco Blue Chip Tst 2.905p
MBL Fin 7% Gtd Bd 2002 $70000.0
Do Dual Basis Gtd Bd 2004 $56250.0
Do Dual basis Gtd Bd 2006 $60000.0
MY Hldgs 1.4p
Mitsubishi 6⅞% Bd 1997 Y687500.0
Northern Rock Bldg Scty FRN 1996 £178.18
Sanwa Australia Fin Gtd Fxd/FRN 2004 $3224.65
Somprasong Land 3⅞% Cv bd 2004 $38.75
Stirling 0.63p
Sweden (Kingdom of) 13½% Ln 2010 £67.50
Taisei FRN 1997 Y1061475.0
Telefonica de Espana Pts30.0
Treasury 4⅛% IL 2030 £2.2853
Treasury 13¼% Ln 1997 £6.625
Treasury 11¾% 2003/07 £5.875
Treasury 14% 1996 £7.0
UK Treasury Nts Jan 1997 Ecu52.50
Whitbread 5.75p
Wigmore Property Inv Tst 0.55p

■ **TOMORROW**
BAA 4.125p
Cook (DC) 0.65p
Euclidian 1p
Harris (Philip) 2.45p
Hazlewood Foods 2.4p
Do 7½% Cm Ptg Pf 2.625p
Itochu FRN 1997 Y14295.0
Le Riches Stores 4.4p
Lewis (John) 10⅜% Bd 1998 £1037.50
Do 10½% Bd 2014 £1050.0
Neepsend 0.6p
NSM 1.5p
Toyo Ink Mfg 7% Bd 2002 Y700000.0
Treasury 8% Nts Jan 1996 Ecu80.0
YTB Fin (Aruba) Gtd Sb FRN 2003 $1670.69
York Waterworks 3.85p
Do A 3.85p

■ **WEDNESDAY JANUARY 24**
Berisford 2p
Cosalt 5.5p
Danka Business Systems 1.08p
Fine Art Devs 3.7p
Forte 10¾% Bd 1996 £107.50
Gold Fields of South Africa Cv Rd Pf R1.45
Leeds Grp 4.4p
National Australia Bank A$0.43
Nat West Bank Und Var Rate Nts $1721.81
Okobank Var Rate Nts 2000 $171.54
Osborne & Little 4.5p
Pelican 0.65p
Trifast 2.9p
Westpac Banking FRN 1997 $15.01

■ **THURSDAY JANUARY 25**
Abacus 3.2p
BZW Cv Inv Tst 1.5p
Bankers Tst New York $1.0
Britannia Bldg Scty Sb FRN 2005 £18643.0
British Airports Fin Gtd FRN 1996 Y46639.0
CPC $0.38
Cleveland Tst 2.45p
Court Cavendish 1.78p
Critchley 3.5p
Debenhams 7¼% Un Ln 2002/07 £3.625
Do 7¾% Un Ln 2002/07 £3.875
General Electric $0.46
Govett High Inc Inv Tst 2.24p
Housing Sec 8⅜% Db 2019 £4.1875
Hydro-Quebec 10⅞% Db Ser HW Jul 2001 C$54.375
Molex $0.015
Do Class A $0.015
Nothern Investors 2p
Ptarmigan Int Cap Tst 1.8p
Salford (City Council) 7% Ln 2019 £3.50
Sappi R1.20
Spintab FRN 1998 $15.33
Sutcliffe Speakman 0.325p
TSB Hill Samuel Bank FRN 2016 $319.44
Treasury 13¾% 2000/03 £6.875
Woolwich Bldg Scty FRN 1996 Ecu153.97

■ **FRIDAY JANUARY 26**
Airsprung Furniture 1.7p
Allen 2.5p
Asset Mngmt Inv 0.593p
Borthwicks 0.5p
Bristol Evening Post 5p
Bristol & West Bldg Scty FRN 1996 £177.53
Carr's Milling 6.5p
Channel Islands Comms 1.25p
Chloride 0.133p
Do 6% Cm Pf 2.1p
Co-operative Bank Sb FRN 2000 £87.19
Dunedin Enterprise Inv Tst 1.6p
Dunedin Smaller Co's Inv Tst 6p
Ensor 0.2p
Genesis Chile Ptg $0.50
IWP IR4p
Italy (Rep of) Global FRN Jul 1999 $15.33
Do Global FRN Jul 1999 Y1320.0
Kalamazoo 1.1p
Lloyds Bank Ser A Var Rate Sb Nts 1998 £176.75
London Elec 111.5p
London Insurance Market Inv Tst 1.1p
London Merchant Sec 0.8p
McCarthy & Stone 2p
Mitsui 3.8% Bd 1998 Y3800000.0
Mitsui Toatsu Chems 3½% Bd 2001 Y3500000.0
Murray Inc Tst 2.7p
Precoat Int 2.2p
Prior 2p
Renold 2.5p
Rolfe & Nolan 1.6p
Scottish Oriental Smaller Co's Tst 0.43p
Sears 12½% Bd 1996 £125.0
Shaftesbury 1p
Toy Options 1.73p
Treasury 2½% IL 2016 £2.2925
Treasury 7¾% Ln 2012/15 £3.875
Yorkshire Elec 100p

■ **SUNDAY JANUARY 28**
King & Shaxson 3½% Cm Ptg Pf 1.75p
Treasury 8½% Ln 2000 £4.25

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Avon Rubber, Melksham House, Market Place, Melksham, 2.30
Berisford, Portman Hotel, 22, Portman Square, W., 12.00
Cosalt, Paternoster Square, St Pauls, E.C., 11.30
Creston Land & Estates, 34, Grosvenor Gardens, S.W., 12.00
MEPC, 104 New Oxford Street, Centre Point, W.C., 12.00
BOARD MEETINGS:
Finals:
Creos Int
London Scottish Bank
Interims:
Abtrust Scotland Inv
BI
GT Japan Inv Tst
Heritage Bathrooms
Menzies (John)
Saville Gordon (J)

■ **TOMORROW**
COMPANY MEETINGS:
Dunedin Smaller Co's Inv Tst, Dunedin House, 25, Ravelston Terrace, Edinburgh, 2.00
Leeds Grp, Forte Crest Hotel, Bramhope, Leeds, 12.00
Lovell (YJ), Stationers Hall, Ave Maria Lane, E.C., 11.00
BOARD MEETINGS:
Finals:
Central Motor Auctions
Derby Grp
Domino Printing Sciences
Everards Brewery
First Philippine Inv Tst
Fleming Claverhouse Inv Tst
Gartmore Brit Inc & Growth Inv Tst
Masthead Insurance
Shandwick
Shanl
Watson & Philip
Interims:
Colefax & Fowler
Daejan
Surrey Grp

■ **WEDNESDAY JANUARY 24**
COMPANY MEETINGS:
Exmoor Dual Inv Tst, Chamber of Shipping, 12, Carthusian Street, E.C., 12.00
Granada, Carpenters Hall, Frogmorton Avenue, E.C., 11.00
BOARD MEETINGS:
Finals:
Prospect Inds
Interims:
Dunedin Japan Inv Tst
Exmoor Dual Inv Tst
Media Business
Merivale-Swain
Murray Inc Tst
Shield Grp
Smith (WH)
Surrey Free Inns
Wiggins

■ **THURSDAY JANUARY 25**
COMPANY MEETINGS:
Airtours, Wilton Hotel, Manchester, 11.30
Barton, London Marriott Hotel, 10, Grosvenor Square, W., 11.00
McLeod Russel, New Connaught Rooms, Great Queen Street, W.C., 11.00
Murray Enterprise, 7, West Nile Street, Glasgow, 12.30
Ransomes, Ransomes Way, Ipswich, 12.00
Scottish Inv Tst, 6, Albyn Place, Edinburgh, 11.00
Tate & Lyle, Barbican Hall, Barbican Centre, E.C., 11.30
BOARD MEETINGS:
Finals:
Lookers
Murray Int Tst
Witan Inv
Interims:
Barbour Index
Churchbury Estates
Goodhead
Jasmin
Unitech
Wood (John D)

■ **FRIDAY JANUARY 26**
COMPANY MEETINGS:
Cooper (Frederick), Park Hall Hotel, Park Drive, Goldthorn Park, Wolverhampton, 12.00
BOARD MEETINGS:
Finals:
Aukett Assoc
Partridge Fine Arts
Interims:
AIM
AromaScan
Caledonian Media Comms
Rubicon
Stewart Zigomala

■ **SATURDAY JANUARY 27**
COMPANY MEETING:
NFC, Corn Exchange, Bedford, 11.00

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

OPENINGS

LONDON
The great Russian impresario Sergei Diaghilev (1872 - 1929) is the focus of an exhibition opening at the Barbican Art Gallery on Thursday. It traces the development of his creative vision from St Petersburg to Paris, culminating in the founding of the Ballets Russes. On show will be work from the key exhibitions of Russian art organised by Diaghilev, together with costume and stage designs by Bakst, and documentary photographs showing Nijinsky (left), Pavlova and others. Many of these have never previously been seen in the West.

VIENNA
Between 1918 and 1942, some of Austria's most gifted artists emigrated to the US. An exhibition opening on Friday at the Österreichische Galerie im Oberen Belvedere focuses on 11 representatives of this "lost generation". It shows how exile influenced their work, and how they in turn influenced American art institutions. The exhibition can be seen in the US in April, at the Mary and Leigh Block Gallery of Northwestern University.

HAMBURG
J.M.W. Turner's sketching tours in Europe resulted in a rich catalogue of material (left) which visitors to London's Tate Gallery have been able to enjoy in recent years. Now Hamburg's Kunsthalle presents a selection of drawings, sketchbooks and watercolours, focusing on Turner's journeys up the Rhine, Mosel and Elbe. The exhibition opens on Friday.

PARIS
As part of its attempt to break down cultural barriers, the Cité de la Musique presents a weekend of Egyptian music starting on Friday. It takes the form of a musical journey through the different regions of Egypt, with sacred chant from Moslem and Coptic traditions, popular music from Port Said, and exotic songs from the Nile valley.

HOUSTON
Houston Grand Opera marks the centenary of the birth of American composer Virgil Thomson with a new production of "Four Saints in Three Acts" (1934), a work now regarded as a precursor of minimalism. Staged by Bob Wilson (right) and conducted by Dennis Russell Davies, the production opens at the Wortham Center on Friday, and is due to visit New York's Lincoln Center and the Edinburgh festival this summer.

Barbara Cook: 'I'm lucky. I'm able to go on singing now, all these years after I began. I couldn't have gone on this long if I'd gone into opera'

A diva who diversified

Alastair Macaulay talks to one of the world's most revered singers, Barbara Cook

Forty years after it was written, the role of Cunegonde in Leonard Bernstein's musical *Candide* is still an awesome role for any soprano. It goes up to top C, and features numerous staccati and runs; and yet it was created by a young singer who has always stayed outside opera, in the domain of musicals and popular song. Her name is Barbara Cook. She has long been among the world's most revered singers, and several of the world's leading operatic vocalists are among her admirers.

Last week, she returned to London for a three-week season of concerts at the Café Royal. A few months ago, I was rash enough in these pages to refer to her as "the greatest singer in the world": it is not a judgment I have yet had cause to repent. It is not that Cook has a superlative voice, but that she makes more music from a vocal phrase, and develops more architecture from an entire song, than any other singer I know of today. Certainly I know of no singer of popular music who better deserves the attention of classical musicians. She has little self-importance and a great deal of good humour; and she talks with gratitude and surprise about her career.

Born in 1927, she was brought up in Atlanta, Georgia. "Nobody in my family loved music in particular, but I loved listening to opera. No matter what I was doing on Saturdays, I always made sure my mother or someone came in to fetch me indoors in time to listen to the Texaco matinee broadcasts from the Met. I'd listen, all by myself, in a room with the radio." But, she says, she never wanted to become an opera singer. "When I started to train seriously as a singer in about 1953, my teacher liked to make all his pupils tackle some opera, especially Mozart. But, despite my love of opera, I resisted that. Finally I tried out one of Donna Anna's arias from *Don Giovanni* – she sings the ~~opening line~~ of "Non mi dir" ("it was the first thing that appealed to me") – "and then I went on to some others."

When she auditioned for Bernstein and he requested something classical, she sang him Madam Butterfly's entrance music. "I only knew the version that led up to high D – I didn't know that most sopranos take the lower option that Puccini offered! – and so I didn't understand why Bernstein said to me 'Miss Cook, you are a very *brave* singer!' But, to me, high notes and so forth weren't a part of my professional equipment before *Candide*. I would call that kind of singing 'acting like an opera singer': something to do for fun. You know, I'd hold a high E while running downstairs: that kind of thing. It wasn't serious."

She still speaks of the terror that Cunegonde's famous number "Glitter and be gay" inspired in her. "I'd never sung higher than the G just above the stave in public! But Bernstein helped me: he made me feel I could do anything." She also recalls how Bernstein would incorporate ideas of hers. "When Cunegonde has sung the words 'Then I droop my wings', there's a high C in the score. Well, after the C, I just *had* to take a portamento downward to lead into the next phrase; it felt to me only right, with those words. Bernstein loved that, and he put it straight into the score."

An enchanting 1995 CD commemorates her Broadway years (1951-72). Before *Candide*, she had sung in such new musicals as *Flahooley* (which lasted only six weeks) and *Plain and Fancy* (which ran for 461 performances). After *Candide* (whose original production closed after only 73 performances), she triumphed in *The Music Man* (1957), which lasted 1,375 performances and won her a Tony; and she sang in the original *She Loves Me* (1963), several of whose songs – "Will He Like Me?" "Dear Friend" "Ice Cream" – she has gone on singing in concert and which have become an important part of her legend. From 1965, she also began to act in straight plays.

In 1974, she started a second career, singing concerts, no longer playing roles. A January 1975 concert at Carnegie Hall proved a smash hit, launching the career she has enjoyed ever since. Re-listening to her Broadway album reveals that no change of gear was needed for her change of career. She was, and is, a classical singer, in the larger sense of that adjective – exemplary in her entry into notes, in her sculpting of musical phrases, in her pointing of words. Today she is one of the few singers of popular music who began their careers without the help of microphones; and she still always sings one number – the first encore – without amplification.

"I had had great teachers. In *Candide*, Bernstein made me really think about rhythm. And he loved my way of *speaking* some of the words. At first, Tony Guthrie, who was directing, had made us all work on diction, you know; to make sure we Americans didn't pronounce Ts like Ds. When, a week before the premiere, we heard Bernstein was going to talk to us about pronunciation, I thought 'Oh no, he wants it more precise'. But no. He wanted the opposite; he wanted it to sound as much like natural speech as possible."

Today, when she conducts masterclasses, that is what concerns her most. "I recently taught one in Los Angeles at USC [University of Southern California]. It went very well, but there was one singer, operatically trained, who did 'Eef everr I wooold leave yooo' from *Camelot*. He couldn't change this artificial way of delivering the vowels. 'Come close, sit beside me, and sing it quietly *to me*,' I said. 'Just *say* the words.' But he couldn't."

To sing popular music well, she maintains, you need to sing in the vernacular. "And you don't have to be sloppy about it. I'm still working on this, especially in the last four years, when I've been handling more bluesy numbers."

Her own voice teacher taught her to keep her mouth in singing as close as possible to the way she used it in speech. "Don't open it up exaggeratedly – that helps to distort the vowels and to blur the tone. Look at Pavarotti; he hardly ever really opens his mouth wide."

Cook knows that she belonged to what has been called the golden age of Broadway ("I wish I'd known that then – I'd have had more fun") and she has always paid tribute to the two singers who, in her early years, influenced her most: Mabel Mercer and Judy Garland. "With Mabel, it was her take on a song; it wasn't the sound of her voice. And her use of *words*; she would make a phrase more personal than you had known it could be. She would reveal the human comedy, the human irony, in a song. She could also be very, very lyrical. With Garland, well, I couldn't reproduce the trumpety sound of her voice in its full splendour. But what I loved was to watch, night after night, the way she could build a song in a big emotional arc."

Building a song has become one of Cook's most overwhelming virtues. She builds one little Rodgers-and-Hart song "Wait till you see him", for example, into a towering statement of faith and anticipation. Another song that Cook builds to exceptional effect is "Dancing in the Dark", the great ballad by Arthur Schwartz and Howard Dietz. "I was at a Lincoln Center gala once, when one singer gave a beautiful delivery of that song; and I turned to Arthur Schwartz, whom I knew quite well," (she had sung in a Schwartz-Dietz musical in 1961) "and I said to him 'God, Arthur, it must be wonderful to have written a song so glorious, that has been sung so often.' 'Yes,' he said, 'But nobody really sings the words beautifully. It's about life and death.' So I went back to the words – 'dancing in the dark, till the tune ends, we're dancing in the dark, and it soon ends, we're waltzing in the wonder of why we're here . . .' Wally Harper made an arrangement for me that brought out the darker side of the song. I sang it for the first time at that Carnegie Hall debut in 1975. Both Howard (who was at that concert) and Arthur told me that mine was their favourite rendition."

She is quick to attribute much of this to her musical director, Wally Harper, who has written certain of her most winning numbers, such as "It's Better with a Band". "He thinks orchestrally. Not pianistically, though the piano is what he plays. We try out plenty of songs, you know, and if he can't find a rhythmic underpinning to a song, we don't do it. It's not enough that it's a pretty song."

She is, she says, very lucky. "I'm able to go on singing now, all these years after I began. I couldn't have gone on this long if I'd gone into opera." Though she is speaking lightly, a certain earnestness has entered her voice. "And I don't mean to stop. They'll have to carry me out in a crate, you see. Because I just love singing."

Barbara Cook is singing at the Cafe Royal's Green Room until February 3.

Opera

Well-tuned 'Magic Flute'

Revived for the sixth time (by Henry Little), Nick Hytner's 1988 production of Mozart's *Magic Flute* for the ENO still looks good and serves the opera well.

In sentimental moments, I find myself thinking that if *everybody* hauled their kids off to *Die Zauberflöte*, the world would be a better place. Just now, the Coliseum's *Flute* would do nicely – and there is a discount matinée on February 17.

Hytner's original Prince Tamino, Thomas Randle, will reappear for that one performance. It was he or somebody very like him who modelled for the famous ENO poster on the Tube, a fine black torso in strenuous contention with a python. The new Tamino, young Ian Bostridge, very tall and extraordinarily narrow – imagine Tenniel's fish-footman topped with a young, beakily sensitive face – keeps his shirt on.

Bostridge has made a singular, piercing impression in light-tenor cameo roles, in concert versions of Berlioz and Wagner operas, but how would he fare as a Mozart lead? Well: awkward and uncomfortable when speaking, he broke gratefully into song with all the marks of a unique talent.

Suddenly his acting acquired conviction, and his affecting, quite individual timbre was projected into the hall with unexpected power. His phrasing and musical emphases were freshly vital and original, his words pellucid; he set his music alight. He is surely bound for a notable career.

The young baritone John Graham-Hall, another long drink of water, made a crisp, funny Monostatos. Peter Snipp's Papageno was thoroughly engaging, with a nice line in Essex-speak and a delightful Papagena in Sally Harrison.

The only weakness in John Connell's strong Sarastro was a tendency to shorten his dotted-notes; Andrew Slater made a sterling Speaker.

Penelope Walmsley-Clark, who has moved from Queen of Night to First Lady, led a first-class ladies' trio. In her old part, Nicola Sharkey was effortful in her first aria, but managed the second – the great "Hölle Rache" showpiece – with aplomb, even while dragging Pamina bodily across the stage. Our applause was sincere, though the star-blazing Queen is not quite her role. The lovely new Pamina is Janice Watson, one of the very best Paminas that the ENO has fielded.

There is an admirable new conductor, too, the Viennese Alexander Sander, who keeps the score bright and is attentive to his singers. Altogether, this is a warmly recommendable evening.

David Murray

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Nederlands Kamerkoor: with conductor/pianist Reinbert de Leeuw and baritone Jelle Draijer perform works by Scelsi, Stravinsky and Liszt; 8.15pm; Jan 24
EXHIBITION
Amsterdams Historisch Museum
Tel: 31-20-5231822
● Les Belles Hollandaises: exhibition of fashion photographs made by the Dutch photographer Hans Dukkers in the period 1950 - 1970; from Jan 26 to Mar 7

BERLIN

OPERA & OPERETTA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Zar und Zimmermann: by Lortzing. Conducted by Hans Hilsdorf and performed by the Deutsche Oper Berlin. Soloists include Peter Edelmann, Peter Maus, Manfred Röhrl and Gudrun Sieber; 7.30pm; Jan 23, 26
Komische Oper Tel: 49-30-202600
● Die Fledermaus: by J. Strauss. Conducted by Yakov Kreizberg and performed by the Komische Oper; 7pm; Jan 23

BONN

EXHIBITION
Kunstmuseum Bonn
Tel: 49-228-776121
● Heinrich Nauen 1880-1940: exhibition devoted to the German expressionist Heinrich Nauen, with special emphasis on the period 1906-1925. The display of some 40 paintings and 80 works on paper consists mainly of landscapes, portraits and still lifes; from Jan 26 to Mar 17

FRANKFURT

CONCERT
Jahrhunderthalle Hoechst
Tel: 49-69-3601240
● François-René Duchâble: the pianist performs works by Chopin and Liszt; 8pm; Jan 24

HAMBURG

OPERA & OPERETTA
Hamburgische Staatsoper
Tel: 49-40-351721
● Il Trovatore: by Verdi. Conducted by Marcello Viotti and performed by the Hamburg Oper. Soloists include Olga Romanko, Nina Terentjewa, Juan Pons and Kristjan Johannsson; 7.30pm; Jan 23, 26

HELSINKI

DANCE
Opera House Tel: 358-0-403021
● Finnish National Ballet: perform three choreographies to music by Tchaikovsky: "Les Noces" by Jerome Robbins, "Petrushka" by Jorma Uotinen and "Le Sacre du Printemps" by Vaslav Nijinsky; 7pm; Jan 24, 27, 29

LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● London Symphony Orchestra: with conductor Sir Colin Davis and pianist Mitsuko Uchida perform Mozart's "Piano Concerto No.18" and Bruckner's "Symphony No.6"; 7.30pm; Jan 24
Queen Elizabeth Hall
Tel: 44-171-9604242
● Emerson String Quartet: perform string quartets by Beethoven; 7.45pm; Jan 24
Royal Festival Hall
Tel: 44-171-9604242
● The Philharmonia Orchestra: with conductor Christoph von Dohnányi and pianist Emanuel Ax perform Schoenberg's "Chamber Symphony No.1", Mozart's "Piano Concerto in A" and Beethoven's "Symphonie No.7"; 7.30pm; Jan 24
St John's, Smith Square
Tel: 44-171-2221061
● Choir and Orchestra of St John's, Smith Square: with conductor John Lubbock and pianist John Lill perform works by Beethoven, Montague and R. Schumann; 7.30pm; Jan 24

MUNICH

OPERA & OPERETTA
Nationaltheater
Tel: 49-89-21851920
● La Damnation de Faust: by Berlioz. Conducted by Gerd Albrecht and performed by the Bayerische Staatsoper. Soloists include Anne Salvan, Ulrike Schneider, Vinson Cole, Alan Titus and Harry Dworchak; 8pm; Jan 26

NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● New York Philharmonic: with conductor Kurt Masur and pianist Elisabeth Leonskaja in an all-Tchaikovsky programme, including "Piano Concerto No.3", "Fantasia for Piano and Orchestra" and "Symphony No.53; 8pm; Jan 25, 26 (2pm), 27
Carnegie Hall Tel: 1-212-247-7800
● Saint Louis Symphony Orchestra: with conductor Leonard Slatkin perform Haydn's "Symphony No.70", Baker's "Whispers and Echoes" and Rachmaninov's "Symphony No.2"; 8pm; Jan 25
DANCE
Joyce Theater Tel: 1-212-691-9740
● The Washington Ballet: in a programme including the choreographies "Fives" by Choo-San Goh, "Danses Concertantes" by Nils Christe, "Evening" by Graham Lustig, and "Brother, Brother" by Ntsikelelo Cekwana; 8pm; Jan 23, 24, 25, 26, 27, 28 (2pm & 7.30pm)

OTTAWA

CONCERT
National Arts Centre
Tel: 1-613-996-5051
● National Arts Centre Orchestra: with conductor Hermann Michael and violinist Jaime Laredo perform works by Haydn, Barber, Delius and Mendelssohn; 8pm; Jan 24, 25

PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre Colonne and Choeur de l'Orchestre Colonne: with conductor Günther Neuhold, mezzo-soprano Elisabeth Graf and tenor William Kendall perform works by Purcell, Rossini and Beethoven; 8.30pm; Jan 23
OPERA & OPERETTA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● La Bohème: by Puccini. Conducted by Louis Langrée and performed by the Opéra National de Paris. Soloists include Roberto Aronica, LeRoy Villanueva, Carlos Feller and Cristina Gallardo-Domas; 7.30pm; Jan 23
THEATRE
Comédie Française, Salle Richelieu Tel: 33-1 40 15 00 15
● Le Misanthrope: by Molière. Directed by Simon Eine. The cast includes Alain Pralon, François Beaulieu and Dominique Constanza ; 8.30pm; Jan 23, 27 (2.30pm), 28

SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000
● Isaac Stern and Robert McDonald: the violinist and pianist perform works by Beethoven, Bartók, Dvorák and Kreisler; 8pm; Jan 23

STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-88 37 67 67
● Ernani: by Verdi. Concert performance by the Opéra du Rhin and the Orchestre Symphonique de Mulhouse, conducted by Paolo Olmi. Soloists include Gegam Grigorian, Ettore Kim, Roberto Scandiuzzi and Maria Dragoni; 8pm; Jan 23

STUTTGART

OPERA & OPERETTA
Staatstheater Stuttgart
Tel: 49-711-20320
● Il Ritorno d'Ulisse in Patria: by Monteverdi. Conducted by Alan Hacker and performed by the Oper Stuttgart; 7pm; Jan 23, 26

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Concentus Vocalis and The Bach Ensemble: with conductor Joshua Rifkin perform Biber's "Requiem in A major" and works by Leopold I, emperor of Austria. Soloists include sopranos Susanne Rydén and Mieke van der Sluise, alto Steven Rickards, tenor John Elwes, and basses Christian Hilz and Michael Schopper; 7.30pm; Jan 24

WASHINGTON

CONCERT
Concert Hall Tel: 1-202-467 4600
● Simon Estes : accompanied by pianist Julius Tilghman. The bass-baritone performs spirituals and works by Allitsen, Barber, Copland, Youmans, Rodgers, Kern and Brodszky; 8.30pm; Jan 25

WORLD SERVICE
BBC for Europe can be received in western Europe on Medium Wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)
MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

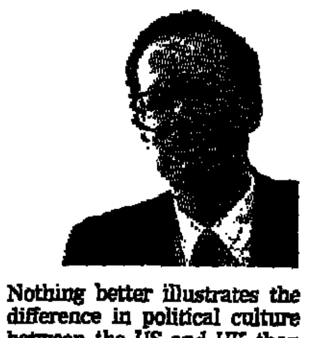
10.00
European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

مكتبة من الاصل

COMMENT & ANALYSIS



Michael Prowse • America

Flat tax frenzy

Republicans are querying the fairness of multiple tax rates and seeking reforms to encourage savings and investment

Nothing better illustrates the difference in political culture between the US and UK than the debate over the flat tax. It is hard to imagine any British politician running for office on a pledge to impose the same rate of income tax on the entire electorate. Lord Lawson, the former chancellor, was roundly criticised in the late 1980s for daring to reduce the top rate of tax from 60 per cent to 40 per cent. He would not have dreamed of proposing a flat rate.

Yet in the US, opinion polls suggest strong public support for the flat tax. Nearly all the contenders for the Republican presidential nomination are promising some version of it. Mr Steve Forbes, the millionaire publisher, ignited the debate by pledging a single tax rate of 17 per cent on all incomes. Mr Phil Gramm, the Texas senator, is trying to outbid him with a flat tax of 16 per cent. Mr Bob Dole, the Senate majority leader and front-runner, has admittedly not yet fully endorsed the idea. But he wants a "fairer, flatter and simpler" tax system.

The flat tax got a further boost last week when a commission headed by Mr Jack Kemp, a leading Republican strategist, made a passionate appeal for root-and-branch reform of the federal tax system. The present code, he argued, should be scrapped "in its entirety" and replaced by a single, low rate of tax on all incomes. On the eve of the 21st century, he suggested, this was the only way to "ensure the greatest possible opportunity for all Americans to work, save, invest and reach their potential".

The term flat tax is unfortunate because many people wrongly assume it would involve an equal tax burden on rich and poor. What it actually does is impose the same marginal tax rate on everyone. The marginal rate is the rate that matters for economic incentives because it tells you how much of an extra dollar of earnings would be swallowed in taxes. Under the Forbes plan, for example, everyone would be able to keep 83 per cent of any extra income: that compares with a figure of less than 60 per cent for top earners today.

But the tax rate that matters from the point of view of income distribution is the average tax rate – the ratio of your total tax bill to your total income. All the flat taxes under discussion include large personal exemptions to reduce the burden on low-income families (on the Forbes proposal a family of four earning less than $36,000 a year would pay no tax). Because of the exemption the average tax rates paid by middle income families would be lower than those paid by higher earners. A flat tax is thus "progressive" at the bottom of the income spectrum. At the top end it is in effect a proportional tax: someone earning $2m would pay twice as much tax as someone earning $1m.

Another common misconception – which Mr Robert Rubin, the US Treasury Secretary, tried to exploit last week – is that the wealthy would pay no tax on interest income and dividends. It is true that individuals would no longer pay tax on "unearned" income. But the flat tax on wages and salaries would be accompanied by a similar tax on businesses that would tax all returns on capital – such as dividends – at source. Indeed, the business flat tax would be designed to snare much corporate income that currently goes unreported. To the extent that savings would no longer be taxed twice as under conventional income tax regimes, the wealthy would benefit. But this is unavoidable if the present bias against saving and capital formation is to be removed.

Far from being a "nutty idea" the flat tax raises two fundamental questions of principle that need to be debated in all industrial countries. The first is treatment of savings. The Kemp commission considers the incentives currently facing a family in the 28 per cent tax bracket that earns an extra $1,000. Of that $1,000 they pay $280 in federal taxes and keep $720. If they spend the $720 by taking the children to Disneyland, they incur no further tax liability.

But if they decide to save the $720 (on which they have already paid tax) they face a stream of future liabilities. The company in which they invest will pay corporate tax at 35 per cent; the family will pay a further 28 per cent tax on any dividends remitted and on any increase in the capital value of their shares. If the investment is held until death they will be subject to estate taxes that can go as high as 55 per cent. Given such perverse incentives is it any wonder that most Americans opt to consume nearly all their income?

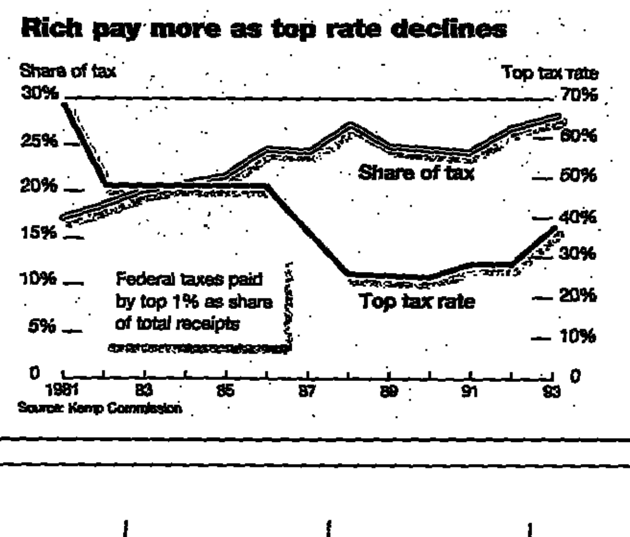
The other fundamental question is whether the tax code should be a tool for social engineering. Should the government levy proportionately higher taxes on the wealthy than on middle and low income workers in order to achieve a "fairer" overall distribution of income? If economic output were manna from heaven and granted by God to "society" as a whole, it would be quite unjust to distribute it unequally. It would be as wicked as mother giving one child a larger slice of cake than the others.

But in a market economy, income is generated by individuals. It reflects individual effort and talent. There is no obvious reason why the less talented and less industrious should have an automatic lien on the extra earnings of the more productive. And when they do – when extensive redistribution is regarded as a "right" – an economy's growth prospects are usually impaired. And those whose envy and resentment of the wealthy motivates the policy of steeply rising tax rates are among the first to suffer.

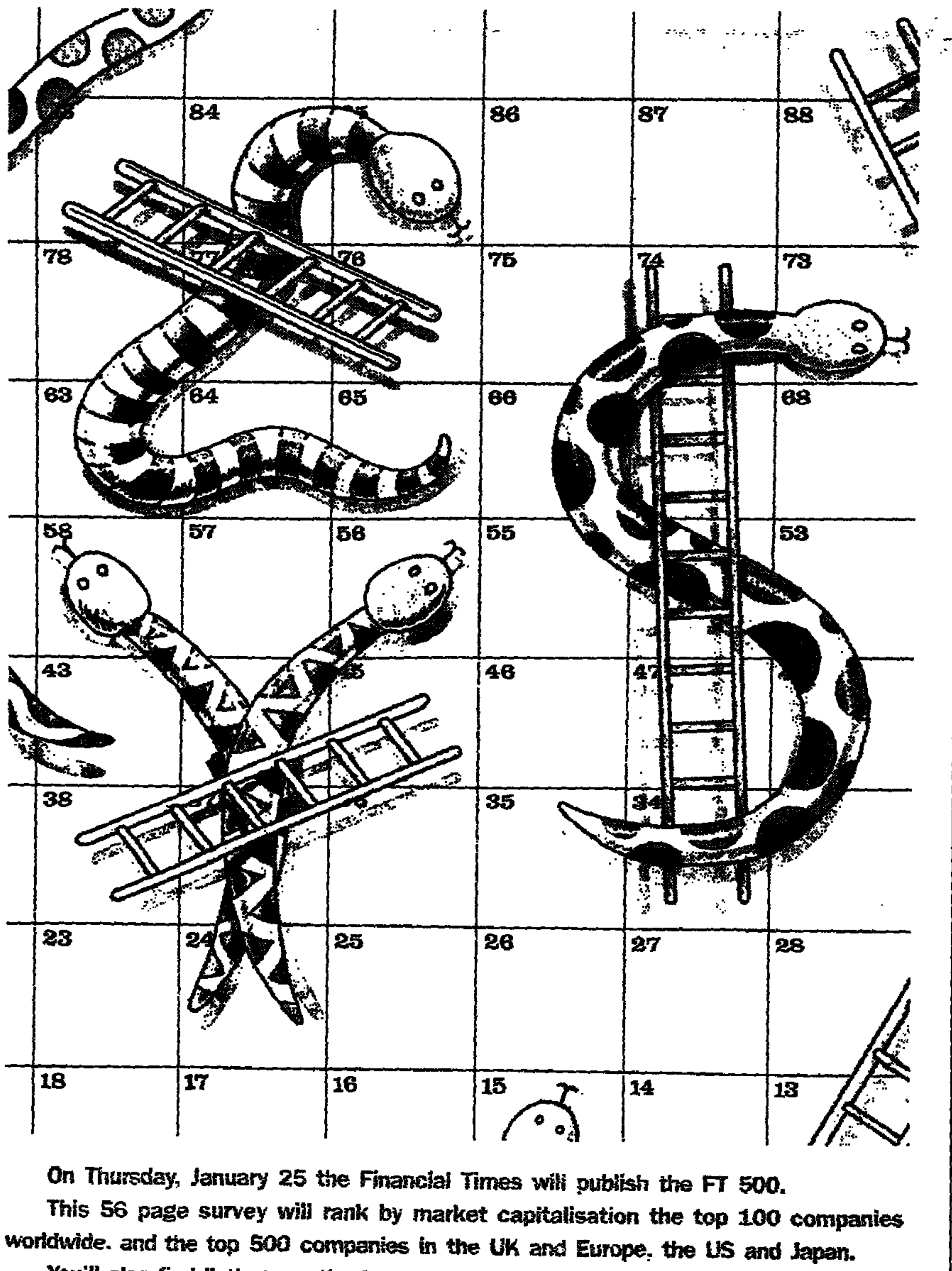
Such arguments were once well understood. In a 1909 editorial opposing income tax, The New York Times wrote: "When men get into the habit of helping themselves to the property of others, they cannot easily be cured of it."

The flat tax would greatly simplify the existing system. It would stimulate more work, more saving and faster growth. It would meet common sense standards of fairness. But its proponents are economical with the truth in one respect: they fail to acknowledge that a rate of under 20 per cent would be consistent with budget balance only if federal spending were cut even more aggressively than Mr Newt Gingrich has proposed. But it remains an attractive longer-term goal.

Rich pay more as top rate declines



Source: Kemp Commission



LETTERS TO THE EDITOR

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Pushing the wrong way

From Mr Robert Solomon.

Sir, Gerald Holtham's letter (January 17) in response to that of John Crow (January 5) seems to argue that central bank independence leads governments to pursue irresponsible fiscal policies, "hiding from the markets" behind the inflation-fighting reputation of the central bank.

If governments were that irresponsible, wouldn't one expect them to push non-independent central banks toward harmful policies?

Robert Solomon,
guest scholar,
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Gifts proposal widely backed

From Mr Brendan Donnelly MEP.

Sir, You report ("Euro-MPs reject greater openness", January 18) that British Conservatives "said taking gifts [from lobbyists] was acceptable as long as they were declared". This form of words is capable of misinterpretation.

In reality, the great majority of Conservative MEPs simply supported the proposals on lobbying brought forward by the Socialist rapporteur, Mr Glyn Ford. These proposals would have obliged outsiders to declare any financial advantages they conferred on MEPs, such as invitations to conferences, secretarial assistance or lavish hospitality. It is not as clear as it might be from your report that these proposals enjoyed a wide measure of cross-party support from British MEPs.

Brendan Donnelly,
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Japan should ponder nuclear future

From Mr John Otranto.

Sir, As Japan revisits its plutonium economy ("Japan reviews nuclear plans as hopes fade for 'dream' fuel", January 10), one would hope it has the wisdom to reflect on:

- the combined loss of $65bn from failed fast breeder reactor (FBR) efforts in the UK, France, Germany, Canada, Sweden, US and former USSR;
- a 1993 report by the US think tank Rand concluding FBRs could not be economical for at least 50 years;
- earlier studies showing it would take up to 90 years (three times the accident-plagued Monju's life-expectancy) to make enough plutonium to fuel a new reactor core;
- anxiety about Japan stockpiling (from various institutional estimates) more than 250 tonnes of plutonium in the next 30-35 years;
- the anger of its citizens because their parliament and the public, contrary to democratic practice, were excluded from the plutonium economy decision and;
- the fact that true wisdom only arises from honestly reflecting on one's mistakes then morally adjusting one's future behaviour.

John Otranto,
executive director,
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Eritrea deserving of western assistance

From Prof Peter D. Wickens.

Sir, Your survey on Eritrea (January 18) is a timely reminder that here is one African country that is truly deserving of assistance. My family visited that country at the beginning of 1995 to celebrate a wedding.

We were astounded at what we found. A country that during the war set up schoolrooms in the caves and is now running its schools on two shifts to accommodate the recognition that it is only through education that the nation will prosper. Streets completely clear of beggars where a westerner can walk in total safety. A people who at all levels said "we recognise it will be a struggle and we will need help, but we are not going in for spendthrift projects. We will encourage small businesses and pull ourselves up by our bootstraps". Your description of their efforts to rebuild their rail link across the mountains from Asmara to Masawa is an indication that this philosophy is being extended to large as well as small projects.

The heart of the old port of Masawa is being rebuilt by local craftsmen in the traditional Moorish style while the capital, Asmara, untouched by the war, retains its Italian art nouveau style. Both are potential delights for tourists.

If ever there was an African nation that is doing what we in the west would call "all the right things", Eritrea is it. It is not begging for help but it needs it. The British government could well do worse than recognise this and act upon it.

Peter D. Wickens,
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Acceptable approach by UK chancellor

From Mr Simon Briscoe.

Sir, I disagree with the widely held view – most recently expressed by Martin Wolf in his column "A gamble with stability" (January 16) – that the chancellor of the exchequer took a gamble in resisting the advice of the Bank of England and not raising rates in May last year.

The problem is not one of gambling; rather, the Treasury and the Bank judge the economy's performance in different ways. The Bank's policy prescription is almost exclusively based on its two-year forecast of inflation. Accordingly, recent developments in the economy get relatively little weight in their deliberations. They give more weight to econometric modelling.

The Treasury, and particularly the chancellor, pay more attention to the latest data. They look at the trend as revealed, not by the last month's figure, but by the latest quarter annualised.

All monetary policy decisions require an element of judgment, but the limited results so far show that the chancellor's decision-making framework is more successful than the Bank's. When the economy is growing as hesitantly and erratically as it is now, the chancellor's method is quite acceptable. It picks up sharp changes in the economy and avoids the risk of an adverse impact on sentiment from inappropriate policy moves.

No one gets it right all of the time, but my experience suggests that giving less weight to econometric based forecasts might not be such a bad decision.

Simon Briscoe,
UK economist,
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Key to European prosperity

From Mr Nicholas Crosby.

Sir, Edward Mortimer, eminent, sane and pro-European, has nonetheless succumbed to the bogus proposition of "Either Emu or enlargement" ("The wrong priority", January 17).

None of the aspiring entrants to the Union wants to join Emu in 1999. None, on any plausible economic grounds, could join in 1999. Therefore, Emu raises no barriers to entry for the proposed new members.

Meanwhile, Emu is essential to the UK and its European allies to ensure a stable macroeconomic environment; to maintain low inflation and sustainable growth; to underpin the single market and trade liberalisation; to unleash the dynamic effects of higher investment and savings; to deepen European capital markets; and to lower unnecessary transaction and exchange costs.

Either Emu or enlargement is a false antithesis. Both are essential to protect and further Europe's prosperity, peace and security.

Nicholas Crosby,
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Real focus for tendering

From Mr Mark V. Hughes.

Sir, Your editorial "Enron's lessons" (January 10) makes a significant point about the importance of transparency and competitive tendering in attracting direct foreign investment. But you are wrong in focusing on rates of return. This is an outcome of a variety of factors, including cost efficiencies (in operating, in construction and in fuel supply arrangements). What is important is price and service quality. These are the real choice components on which competitive tendering should focus. This is a lesson already learned, including in India. Elsewhere (such as in Thailand), independent power producer initiatives fully espouse the importance of competitive tendering to get best price and quality and satisfy the public the best deal was obtained. If the winning bidder (best price and quality mix) can also achieve a good rate of return on his equity investment, good luck to him.

Mark V. Hughes,
partner, Price Waterhouse Corporate Finance,
World Utilities Group,
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Samuel Brittan

Back to basics on Emu

By far the best statement of the purely economic case against large currency areas – of which the European Union's planned single currency is the most topical example – was made by Peter Jay, the BBC economics editor, in an address last November.*

The Jay case is that any economic region, whether independent or part of a larger political unit, is bound from time to time to be uncompetitive. By this he means that it cannot pay its way without a reduction in wages. As most areas also suffer from wage rigidities, which make it difficult to reduce rates of pay, the result is likely to be unemployment, depopulation or a mixture of both.

If however such a region has its own currency, which it can devalue as an act of policy, or allow to depreciate in the market, the need to cut wages goes away. Adjustments can take the form of a falling exchange rate, which allows workers to be priced back into jobs without having to cut nominal pay rates.

In contrast to most politicians who use the term, Jay is careful to explain that competitiveness is a relative concept and that not all countries can be uncompetitive. Moreover uncompetitiveness in this sense is not the only, and may not even be the main, cause of unemployment. It can certainly not be the only cause when jobless worries are worldwide – even among countries such as the UK which is recognised as having a quite competitive real exchange rate.

Jay's inference is that a currency should cover the smallest feasible geographical area. For instance, Scotland should have its own exchange rate and independent monetary policy, while the north-east of England is a borderline case.

The United States monetary area is in his view too large; the South suffered in its post-civil war construction efforts from having to use the Federal dollar. Others have made a similar point about the Italian south after the unification of the country.

It is worth stating the contrary view in equally fundamental terms. This is that a region or country that has become uncompetitive has to adjust its relative prices (as Jay would agree). This means changing the prices of traded products relative to untraded ones, or of domestic real pay relative to pay abroad, or both. One might try to minimise these disagreeable changes by productivity leaps or investment in new products and processes to replace declining industries. But it is wishful thinking to suppose that these positive developments will always happen or can be relied upon. In most instances some mixture of adjustment mechanisms will be involved.

The "one money" school would go on to say that fiddling with numerical ratios, such as the conversion ratio of D-Marks into pounds, cannot avoid the necessary costs and efforts of adjustment. Devaluation is simply a backdoor method of reducing real wages; and once workers cotton on to this it will be no easier to adjust by devaluing than by pressing down on nominal pay.

How can one decide between these equally logical but starkly opposed views of the economic universe? My difficulty is that, although I am inclined towards the second view, I do not hold it nearly as strongly or as confidently as Jay holds the first. (This is a general problem. The supporters of economic and monetary union in the EU are much less strongly convinced of the benefits than opponents are of the disasters.) And exchange rate sceptics went too far in playing down the short-term effects of a devaluation on a depressed economy.

I do not blame Jay for taking bouts of uncompetitiveness (which many economists would call supply shocks) or wage rigidities as given facts of life. One must start somewhere. But it is a reasonable question whether such forces are not made much worse when everyone knows that the government can always devalue. The slide of sterling from well over DM10 three decades ago to just over DM2 now is surely relevant.

The Jay case is at its strongest if bouts of uncompetitiveness last only a few years and alternate with periods of high competitiveness when market forces might drive the currency up. Then it is possible for countries to have real interest rates lower than the going international rate because of market expectations that their exchange rates will recover.

The Jay case is at its weakest when the "competitiveness" trend is downwards – often because of domestic inflation. Then wage bargainers add on an implicit devaluation premium to the settlements they make. The US South might have been given a kick-start if it could have devalued after the civil war – as might the *mezzogiorno* in Italy after unification. But it is difficult to believe that a long-term depreciation of their currencies would have made much difference to real wages or employment.

The analogy with changing the clock (originally used by Milton Friedman in his argument in favour of floating exchange rates) is helpful here. Alternation between summer and standard time may, indeed, be more convenient than asking everyone to get up an hour earlier. But a continuous adjustment of the clock in one direction would, surely, be seen through and lead more and more people to disregard the official time in favour of making their own arrangements for rising and retiring.

In the British case, independent monetary policies have brought mainly faster rates of inflation than in partner countries without any benefits to employment. Events of the last few months have made the achievement of the main alternative route to stability – an independently accountable central bank – much less likely; and an Emu, run like the D-mark, still looks the best bet for low inflation and far from the worst bet for growth and jobs.

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Fokker in a tailspin

The long agony of Fokker, the troubled Dutch regional aircraft maker, is nearing a climax. Having failed to persuade the Dutch government to fund a rescue package, Daimler-Benz, the German industrial group which is the company's largest shareholder, appears poised to cut its financial lifeline. Painful though the consequences would be, that is probably the most sensible outcome for all involved, and for Europe's aerospace industry.

For most of the past decade, Fokker has been buffeted by crises. Despite capital infusions by its parents and drastic cuts in costs and output, the company has made increasing losses since 1993 and now has negative equity. Although there have recently been signs of a recovery in the regional aircraft market, it is unlikely to be enough to solve Fokker's fundamental competitive weaknesses.

The company operates in a market sector bedevilled by excess capacity and chronic price competition. With two thirds of its outgoings in guilders, it is a high-cost producer in a business denominated in dollars. It also needs to finance heavy development costs on the basis of modest, and shrinking, output.

That Fokker has survived until now owes much to the fact that the Dutch government has long viewed it as an arm of industrial strategy and a technological champion, not as a commercial enterprise. Daimler may have calculated, when it acquired majority control of the company three years ago, that national pride and domestic political pressures would compel the authorities to bail Fokker out of future troubles. If so, the belief appears mistaken.

Growing budgetary pressures make it difficult, politically as well as economically, for the Dutch government to continue treating Fokker as a special case. The company's labour force has dropped sharply since 1990, much reducing the impact on employment if it collapsed. Furthermore, most of its remaining staff are highly skilled and well placed to find other jobs. At most, the government now seems ready only to support the company while buyers are sought for its assets.

When Daimler acquired its stake in the company, the deal was touted as the nucleus of a trans-European aerospace grouping, which would involve French and Italian interests. That ambition has been shattered. Instead, the episode underlines the risks of ill-conceived "European solutions" to the problems of struggling national champion industries.

Too often, the companies concerned are too problem-ridden to survive without subsidies. Yet subsidies blunt the incentive to rationalise, while penalising competitors. When, as in this case, the company is one of the weakest players in an overcrowded business, the logical "European solution" is for it to withdraw from the market. Trying to keep it afloat artificially does no favours to taxpayers, the rest of the industry or, ultimately, to employees.

Russia in Europe

The Strasbourg-based Council of Europe makes few headlines, and when it does it is often confused with, or assumed to be part of, the European Union. Actually it is older than the EU in any of its forms, and has a larger membership. It has no armies, investment banks, or common tariffs. But it does have the European Convention on Human Rights, with the court and commission that administer it, and it has so far been fairly punctilious in accepting as members only genuine democracies that respect human rights.

Since 1989 the council has gradually expanded its membership to include the new democracies of central and eastern Europe. In some cases – notably Romania – there was serious doubt whether they would fully respect the obligations of membership. But it was thought better to let them in and use the machinery of the council to help them live up to their obligations rather than reject them and leave their citizens at the mercy of resentful and isolated governments. Similarly, Turkey has retained its membership, in spite of much criticism of its human rights record, so that victims of oppression such as the Kurdish MPs arrested during the last parliament do have some chance to seek redress – admittedly a lengthy procedure – from the Strasbourg court.

Now similar arguments are being urged on behalf of Russia, whose applications for membership will be considered this week by the council's parliamentary assembly. The assembly is under pressure to approve it, notably from the German government which is rightly anxious to avoid isolating Russia from the rest of Europe. But the assembly should resist such pressure. There are plenty of other forums in which Russia can be engaged in dialogue about human rights – most obviously the Organisation for Security and Co-operation in Europe. That organisation, unlike the Council of Europe, has no machinery to enforce its principles, which have therefore been treated more as aspirations than binding obligations by the member states.

Indeed, Russia has flagrantly violated many of the provisions of the Paris Charter adopted by the OSCE in 1990, especially in its handling of the Chechen rebellion. No undertakings it may give can be taken seriously unless and until there is a radical change in its behaviour.

Mr Grigory Yavlinsky, leader of the main democratic bloc in Russia's new parliament, said in Bonn on Saturday that council membership should be kept open for Russia as an incentive, but made conditional on the prior fulfilment of explicit conditions. He is right. To admit Russia to the council now would make a mockery of the human rights convention. This would be a great loss to Europe as a whole, while bringing no benefit to Russia.

Suitable partners

Disgruntled Conservative MPs are not alone in looking beyond the hardening prospect of defeat for the government at the general election. As Mr John Major's party contemplates a bitter post-election struggle to decide the direction of Conservatism, Mr Paddy Ashdown is seeking to fashion a future in power for the Liberal Democrats.

Mr Ashdown has already abandoned any pretence that his party might remain neutral between the government and Mr Tony Blair's New Labour during the election campaign. Now he is attempting to nudge the Liberal Democrats towards a post-election deal with Mr Blair. As he indicated in an interview with Sir David Frost yesterday, the Liberal Democrat leader does not want a formal electoral pact. But he does hope to lay the foundations for an agreement which could see his party play an active role in a Blair-led administration.

For all his publicly-expressed doubts about the depth of Labour's commitment to abandon socialism for social democracy, the Liberal Democrat leader understands that much more now unites the two parties than divides them. More importantly, a Labour victory (ideally with Mr Blair emerging as leader of the largest party in a hung parliament) offers Mr Ashdown's party its only realistic escape route from the politics of protest. In spite of their undoubted success in local government, the Liberal Democrats will otherwise remain stranded on the fringes of power at Westminster.

In an important policy speech later today, Mr Ashdown will insist that he cannot be taken for granted. He will argue that the Liberal Democrats have set out distinctive policies on Europe, the environment, education and the economy against which Mr Blair's programme should first be tested. Above all, he will demand that Labour's commitment to constitutional reform includes the replacement of the present first-past-the-post arrangements for the House of Commons with a proportional voting system.

His caution is explicable. The lesson of the Lib-Lab pact of the late 1970s was that the junior partner in any such venture is easily exploited. And while he has offered a referendum on the voting system, Mr Blair says he is sceptical of the case for change.

Mr Ashdown, however, cannot avoid taking risks if he is to pull his party on to the national political stage. A bolder approach would test Mr Blair's oft-declared commitment to a more pluralist style of politics. The Labour leader recognises that fundamental reform of Britain's political system and economic management will demand more than a single parliamentary term. In addition, it will require broader political consent than Labour alone is likely to secure at the general election. If his own analysis is correct, Mr Blair also needs a partner.

The elusive white collar criminal

Robert Maxwell was not the first financier to make the best of lax regulation, and will probably not be the last, says **John Plender**

Sir Martin Jacomb, chairman of Prudential Corporation, once famously shocked public opinion by declaring that insider dealing was usually "a victimless crime". Now, if the Serious Fraud Office decides not to pursue further prosecutions in the Maxwell affair, we may have something equally paradoxical: a crime with no perpetrators.

Following the acquittal on Friday of Messrs Kevin and Ian Maxwell and Mr Larry Trachtenberg on charges of defrauding the Maxwell pension funds, pension scheme members *feel* bewildered and let down. While two thirds of the pension funds' missing assets have been retrieved, it remains true that the victims, many of them elderly, have been subjected to much uncertainty and misery.

It is thus understandable that people should look for scapegoats and point the finger at the Serious Fraud Office. Yet it should not be forgotten that white collar crime cases have rarely satisfied the expectations of the victims, precisely because they pose very special difficulties. History has important lessons on what to make of the Maxwell affair.

Kevin and Ian Maxwell were merely bit players in the piece. The protagonist was unquestionably their father, the late Robert Maxwell, the natural heir to a great 20th century tradition of fraudsters that goes back, via Clarence Hatry, to Horatio Bottomley and Whitaker Wright.

Bottomley's first encounter with the courts came with the crash of a printing and publishing company, Hansard Union. He escaped charges of swindling by putting up a brilliantly plausible performance in court. It was only 33 years later, after milking numerous mining companies and being associated with many other dubious ventures, that he was finally jailed for fraud.

The persuasive Robert Maxwell escaped in similar fashion from the opprobrium of the Pergamon scandal in the early 1970s and had ample opportunity to make hay in the free-wheeling climate of the 1980s before he disappeared from his yacht off the Canaries as his business empire foundered.

Whitaker Wright, who also dabbled in mining companies and over-committed himself in the financing of what subsequently became the Bakerloo underground line, had the misfortune to be prosecuted by Rufus Isaacs. As David Kynaston recounts in the second volume of his history of the City, Isaacs' exposition of Wright's financial skullduggery was masterly. But justice was never done. The financier escaped seven years of penal servitude by taking a cyanide pill after hearing the sentence.

In the late 20th century, heart disease often provides a less melodramatic escape route for such questionable entrepreneurs. Wilfred Harvey, whose printing company ultimately found its way into Robert Maxwell's business empire, was never prosecuted for financial malpractices in the 1960s because of his incapacity on this score. Gerald Caplan, the entrepreneur behind the collapse of the fringe bank London & County Securities in 1973, escaped extradition from the US for similar reasons.

Yet the fraudster who offers the closest and most instructive parallel with the former Labour MP Robert Maxwell is probably the 19th century Liberal MP and soi-disant philanthropist Jabez Spencer Balfour. Balfour built up the *Liberator* Building Society, only to misappropriate its deposits and deploy them in disastrous property speculations.

The interesting point is that the growth of the building society movement had outstripped the legislative framework. Much the same could be said of pension funds in the present decade.

Fifty years ago, pension funds in Britain were small beer. Today they control more than £500bn. Few targets could be more tempting to the unscrupulous – especially since the whole structure of the average pension scheme could almost have been designed to provoke fraud.

For a start, the assets have no beneficial owners. They are held in trust; and a majority of the trustees are usually directors. In effect, pension funds have been run as a form of investment trust subsidiary of the sponsoring company, which provides financial underpinning for the promise of a pension related to final pay.

All Maxwell did was to take pension fund paternalism to its logical extreme. Where other companies took pension fund surpluses into their profits via contribution holidays, a practice that did wonders for the directors' profit-related bonuses, Maxwell took not only the surpluses, but part of the main body of the fund as well, to finance his own private business empire.

As with the 19th century building societies, the legislative and regulatory framework offered few serious obstacles to the determined fraudster. Quite the contrary: it gave Maxwell an entrée into the retail financial services business without having to face any test of fitness and propriety. Since he had been declared by Department of Trade inspectors in the early 1970s to be unfit to run a public company, this was a very large unlocked door.

The regulatory omission underlines the fact that the biggest systemic failure in the Maxwell case did not arise from the judicial proceedings, which were anyway concerned only with the bit players, but the prior political process. It remains astonishing that the government could have permitted the law affecting pension funds to remain so short of safeguards against wrongdoing, despite loud warnings for more than a decade about weak accountability and financial control.

In the 100 years between the collapse of the Liberator Building Society and the Maxwell business empire, no one has found an answer to the problem that politicians win no kudos for plugging loopholes before money has actually been lost. Votes are only won by declarations after the event that the government will clamp down fiercely on white collar crime.

By the time it comes to the passage of the relevant legislation, the sensitivity has usually diminished and the issues are too complex to excite the public imagination. Interest groups exert disproportionate influence. Hence the misgivings of some City professionals over the new Pensions Act, which makes it harder – but not that much harder – to milk the pension funds of the future.

The Maxwell scandal was equally striking for the light it cast on the workings of the City. National Westminster Bank played an important part in restoring Maxwell's name in the banking community. Smith New Court eased his path in the stock market. Big US investment banks – Goldman Sachs and Lehman Brothers – were party to some of Maxwell's more bizarre dealings with the pension funds' investments. Numerous others jumped on to the Maxwell bandwagon when it became apparent, in the 1980s, that he was borrowing and dealing in very large sums, thereby showering the financial community with fee income.

Yet if Maxwell exposed the extent to which City standards had fallen, this was probably an inevitable consequence of the increased pressure on profits arising from the deregulation of the old City cartels. Tougher competition from both domestic and foreign financial institutions wrought havoc on banks' margins. To survive in the new climate, some felt it necessary to take bigger financial risks or to cut corners.

This is not to exonerate them; merely to point out that, in today's City, reputation counts for less and the Serious Fraud Office (SFO) is having to deal with a situation in which business conduct is different and the complexity of frauds has increased. Moreover, to measure the SFO's performance purely in relation to successful prosecutions makes about as much sense as paying an army according to productivity as measured by the number of body bags. It may not have done well in these high-profile, expensive fraud cases. But *history* suggests that complex fraud trials do have a nasty way of making the authorities look foolish.

According to Mr Christopher Duffett, managing director of Law Debenture Corporation, which acts as an independent trustee in the unravelling of the Maxwell pension funds saga, many in the City are already saying that the outcome of the Maxwell affair is the last nail in the coffin for juries in fraud trials. Yet to the mere layman, a move towards expert tribunals looks a less attractive option than clarification and strengthening of the law, to make the jury's task less difficult. For the biggest lesson of history is that while the detailed methodology may change, the principles in frauds, however complex, are immutable. Maxwell was not unique.

The shadow of Robert Maxwell (top) has loomed large over his sons, Ian and Kevin (centre). The Serious Fraud Office removed evidence after the brothers' arrest in 1992

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100 years ago

Canadian Pacific prospects
The position of the Canadian Pacific is a question of considerable importance. Rather less than a year ago the Directors unexpectedly decided to pass the usual dividend of five per cent per annum on the ordinary shares, and now holders, while not looking for the immediate resumption of dividends, are beginning to debate in their minds how soon they may begin to expect again a return on the huge amount of capital they have sunk in this important undertaking. It was not surprising that Canadian Pacifics sustained a very heavy fall in price when not only was the dividend passed for the second half of 1894, but it was found that most of the reserve fund had been used to meet liabilities.

50 years ago

Whither France?
France is not a good advertisement for democracy in the form of a Parliamentary Government. Just at a time when stable politics are essential to the country's economy, she is involved in another crisis [illegible] stability.

FINANCIAL TIMES
Monday January 22 1996

French institution agrees restructuring plan

Brussels set to approve $3bn state aid for bank

By Emma Tucker in Brussels and Andrew Jack in Paris

The European Commission is this week expected to approve a FFr15bn ($3bn) state aid package for Comptoir des Entrepreneurs, the specialist French property bank, which has submitted extensive restructuring plans in return for approval of a government-assisted rescue.

The restructuring involves abandoning all the bank's activities outside France and a shake-up of activities at home, a move which could lead to a halving of jobs. "This is a really clear-cut restructuring plan that makes sense," a Commission official said.

Clearance of the state aid comes amid growing doubts about the ability of Crédit Lyonnais, the French state-controlled bank, to comply with conditions that were laid down by the Commission in July in return for a FFr45bn bail-out.

In what was the biggest case of state aid ever to come before Brussels' competition authorities, Crédit Lyonnais was told to sell 35 per cent of its assets outside France, by the end of 1998.

However, there has been a fierce debate over the contents of a letter sent to the Commission by Mr Alain Madelin, French finance minister at the time the package was finalised, who argued it meant the bank would have to sell as much as half its assets in Europe outside France.

Last week, the Crédit Lyonnais board acknowledged for the first time that it had seen Mr Madelin's letter, and stressed its demands could be difficult to meet in the period up to 1998 without leading to a deterioration in the bank's financial condition – something it was determined to prevent.

The board would not confirm whether it interpreted Mr Madelin's letter as meaning it would have to sell such a high proportion of its European assets during the next three years. It stressed that the letter acknowledged the possibility of re-examining the conditions agreed with Brussels at the end of this period given "certain conditions".

In Brussels, officials indicated that while there could be some leeway on the timing of the asset sales, everything else was immovable. The Commission had no official comment to make, preferring to wait for details from the French authorities.

One of the conditions under which the state aid was granted, was that Crédit Lyonnais and the French government had to provide Brussels with regular information on how the conditions were being met.

Comptoir des Entrepreneurs, which employs more than 1,100 staff, has predicted it will make losses of up to FFr600m this year and return to break-even during the second half of 1996. It has pledged to cut loans and management costs substantially and refocus its remaining activities as part of its rescue package.

Election upset mars Arafat's personal victory

By Julian Ozanne in Jerusalem and Mark Dennis in Ramallah

Palestinian voters yesterday delivered a series of humiliating defeats to handpicked candidates of Mr Yassir Arafat, while giving their veteran leader a landslide personal victory in his people's first national elections.

In early results, independent candidates and critics of Mr Arafat's authoritarian rule looked set to emerge with much greater support than expected. Results announced in 11 of the 16 electoral districts showed independents had won 22 seats to Fatah's 25 although Fatah was still expected to gain a majority of the 88-member legislative council when later results were declared in large districts like Hebron and Khan Younis.

In several districts such as Arab East Jerusalem, Ramallah and Gaza City, independent candidates won more votes than official Fatah candidates. In Bethlehem the entire Fatah list was defeated and in Gaza Mr Marwan Kanafani, Mr Arafat's spokesman, and former housing minister Zakaria el-Agha failed to be elected.

Pollsters estimated more than 30 opponents and critics of Mr Arafat's one-man rule could be elected, raising the prospect of a strong critical voice in the new council.

The upset for Mr Arafat came as results showed the Palestinian leader winning almost 89 per cent of the vote in a two-person race for the presidency of an executive authority, on a high voter turnout of about 75 per cent of the 1m registered voters. His only opponent, Mrs Samiha Khalil, won 11 per cent of the vote. Some 5 per cent of ballot papers had been spoilt.

The high turnout was a defeat for the Hamas Islamic group and other groups opposed to the Israeli-Palestinian peace process who had mounted a boycott of the elections. However, a handful of Islamic candidates linked to Hamas were elected in the Gaza Strip.

Palestinian officials hailed the poll for the presidency as a victory for Mr Arafat's democratic legitimacy. "Although he was recognised as the leader during the past 30 years, Yassir Arafat now has a new position, he is the first elected Palestinian leader," said Mr Mahmoud Abbas, one of the most senior Palestinian officials.

Israel also welcomed the poll as a show of Palestinian support for the Israeli-Palestinian peace agreements. "The vote wasn't only to elect the representatives of the Palestinians but effectively also confirmed that a decisive majority of the Palestinians backs the agreements," said Mr Shimon Peres, prime minister.

Not all the votes go Fatah's way, Page 4

THE LEX COLUMN

Fokker's crash landing

Fokker appears to be in a fatal tailspin. Daimler-Benz, its controlling shareholder, has injected over DM3bn ($2bn) into the ailing aircraft manufacturer since its initial ill-judged investment in 1993. With problems besetting them on all sides, the Germans will be reluctant to throw good money after bad, when they decide Fokker's fate at today's board meeting. And supporting Fokker would be highly unpopular at a time when it is cutting aerospace jobs in Germany. But the Dutch government, Fokker's other principal shareholder, would find it just as difficult to justify the use of Fl3bn ($1.8bn) of taxpayers' money to rescue a company under foreign control.

The financial arguments for letting Fokker go bust are overwhelming. With half a dozen serious players, the regional jet market is plagued by overcapacity. While aircraft are priced in dollars, Fokker is burdened by a Dutch guilder cost base. Having lost Fl651m in the past six months, analysts expect losses and restructuring charges to amount to twice that in 1996. The group has negative shareholders' funds and debts of Fl4bn.

Of course there are political considerations too. The Dutch government will try hard to preserve the 7,800 jobs at Fokker. Daimler and Mr Jurgen Schrempp, its chairman, who was behind the investment in Fokker, stand to lose face if it goes under. It is even possible that one of Fokker's rivals may swoop in at the last minute to pick up the group's order book and technology. But the halving of Fokker's share price in the past 10 days shows rescue hopes are fading.

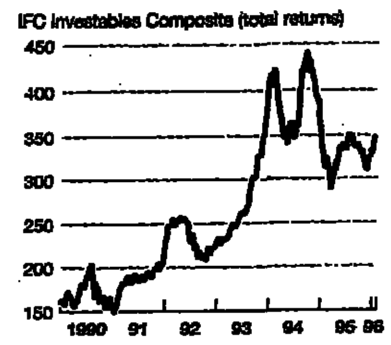
Emerging markets

When both economic fundamentals and flow of funds coincide, the upward momentum is hard to resist. That is the case for emerging stock markets this year. Prices are relatively cheap, while emerging economies are still growing rapidly. And everyone is pitching in: with low interest rates in the developed economies, there is plenty of liquidity sloshing around.

International fund managers are reassessing emerging markets because of the fading allure of their domestic markets. US investors believe that a repetition of their home market's outperformance last year is unlikely. With low interest rates, low growth and low inflation, domestic markets are steady enough to foster confidence, but not inspiring enough to hold their interest.

Emerging stock markets

IFC Investables Composite (total returns)



Source: FT Extel

Not surprisingly, the global flow of funds into emerging markets is closely correlated with performance. According to ING Barings estimates, the inflow reached a peak of $62bn in 1993, the markets' best year, dropped to $40bn in 1994 and plummetted to $15bn last year, in the wake of the Mexican crisis. If the current pace continues, the inflow this year is on course to reach $50bn.

The next question is which market to pick. The most obvious criterion is economic growth. Malaysia and Hongkong are expected to grow 8 or 9 per cent this year; Mexico, on the other hand, may grow just 1 per cent, and the growth prospects elsewhere in Latin America are also poor. But emerging economies, like emerging markets, are volatile. In Asia, high interest rates designed to prevent overheating may end up reining in growth substantially, causing earnings to collapse. The main reason for buying Malaysia or Hongkong – earnings momentum – could evaporate.

Furthermore, most companies in emerging markets are less motivated to maximise returns to shareholders than, say, US companies, which with much lower economic growth may still generate better earnings growth. This means that working out whether share prices offer good value by comparing them with prospective earnings can be difficult.

Still, looking for a mix of reasonable value, strong growth and an improving record on inflation is a good thumbnail guide. On this basis, India looks a buy. The economy is expected to grow about 6 per cent, while inflation is in single digits and falling. The good thing about the scandals which have dogged the market is that further upsets would probably have limited impact. And while India's cyclical stocks may prove vulnerable to commodity price fluctuations, the size of the market means there are plenty of opportunities in growth areas like telecoms, pharmaceuticals and technology. Latin America, despite its poor growth prospects, also has something to offer – not least, it comes from a low base. Argentina and Brazil, the big offenders on inflation, appear to be bringing it under control. And both markets look reasonably valued at just over 10 times prospective earnings. In Eastern Europe, the Polish market, which has already made a strong start to the year, is set to reap the benefits of inward investment.

Still, when the market eventually turns, some investors are bound to get hurt: the easiest prediction is that some time in the next few years there will be another sharp downturn. Until then, there is money to be made.

Stagecoach

Stagecoach never seems to stop growing. On Thursday the government cleared one acquisition; on Friday, the company announced another. The flow of potential acquisitions in the UK bus industry has not yet dried up, but it inevitably will. As the number of opportunities dwindles, one might have thought Stagecoach would opt for a period of consolidation. On the contrary, the company is now bidding aggressively for rail franchises.

Is the company biting off more than it can chew? Trains and buses are, after all, very different. The rail unions are more powerful. And Stagecoach's aggressive tactics against competitors will not be much use on the railways: for the time being, franchisees will enjoy monopolies.

But the prospects for making substantial sums of money out of rail franchises, with very little capital outlay, are considerable. Of course, an incoming Labour government might open the network up to competition, trying to cut franchisees' profits. But if anyone is likely to be able to cope with this, Stagecoach is. And at 13-14 times next year's earnings – not much of a premium to the market – the shares hardly look overpriced for a company growing at this speed.

The real question is whether Stagecoach's ambitions are over-extending its management. But many investors, who have seen their shares outperform the market by 100 per cent over the last two years, will be inclined to give the management the benefit of the doubt.

Decision on Fokker funds

Continued from Page 1

come only a few days after the official announcement of the break-up of AEG, the electrical engineering company and another troubled part of the Daimler-Benz empire that stood little chance of turning in profits for the foreseeable future.

As a former Daimler-Benz Aerospace (Dasa) chairman Mr Schrempp took the controversial decision to buy Fokker in 1993. After he took over the chairmanship of Daimler-Benz last May, he initiated a radical restructuring programme, involving hefty job cuts at Dasa and the sale of several AEG divisions ahead of AEG's subsequent break-up.

His aim is to turn Daimler-Benz from an "integrated technology concern" into a more focused and more profitable transportation group.

G7 optimism

Continued from Page 1

the second half, a view shared by Mr Waigel. Mr Kenneth Clarke, UK chancellor, said he stood by his Budget forecast of 3 per cent growth in the UK this year, although he conceded the UK was currently growing "well below trend". He said Britain would be helped by a pick-up in spending in France and Germany, which were planning measures to boost entrepreneurship and small and medium-sized businesses. The ministers were also reassured by a report from Mr Wataru Kubo, the new Japanese finance minister, that there were signs of recovery in his economy.

Mexico plans rescue to avoid large-scale company defaults

By Leslie Crawford in Mexico City

The Mexican government is poised to rescue some of the country's largest and most heavily indebted companies in an effort to avert the threat of large-scale corporate defaults.

The plan to cancel their liabilities to Mexican banks with long-term government bonds is the clearest indication of the damage wrought by last year's financial crisis, in which Mexico avoided default on its foreign debt at the cost of a deep recession and a credit squeeze that has strangled a large part of the business community.

Officials at Nafinsa, the national development bank, said the finance ministry was preparing a special issue of sovereign bonds, which indebted corporations would be allowed to buy at a large discount. Creditor banks would then accept these bonds at face value in exchange for agreeing to write off the equivalent amount of corporate debt.

Nafinsa officials would not disclose the cost of the corporate rescue, but said special low-cost credit lines, partly financed by the Inter-American Development Bank, had been arranged to help companies buy the bonds.

"The aim of the plan is twofold," a Nafinsa official said. "It will give immediate relief to large corporations which are struggling with very high interest rates on commercial bank debt, and it will strengthen the portfolio of domestic banks, as they will be able to lower provisioning against risky corporate loans."

Despite several interest relief and debt rescheduling schemes for small debtors last year, problem loans almost trebled in 1995 to 113.5bn pesos ($15bn), an amount equal to 17.5 per cent of the banking system's total loan portfolio, according to Mr José Madariaga, president of the National Bankers' Association. Overdue loans have put an intolerable strain on capital and reserves of commercial banks, and several banks have needed large injections of government cash to stay afloat.

Mexican bankers estimate that as much as 40 per cent of overdue loans in the banking system are owed by large corporations.

Nafinsa officials said about 20 large corporations had been singled out for the debt relief scheme. A special finance ministry committee had been appointed to examine the needs of each corporation and mediate between the company and its bankers, they said.

The companies singled out for special treatment are expected to include Aeromexico and Mexicana, two privatised and near-bankrupt airlines which were taken over in 1994 by a consortium of creditor banks. Sidek, which has interests in steel, hotels and property development, and reported liabilities of 12.4bn pesos, or 72 per cent of its assets last September, is also understood to be in the rescue plan.

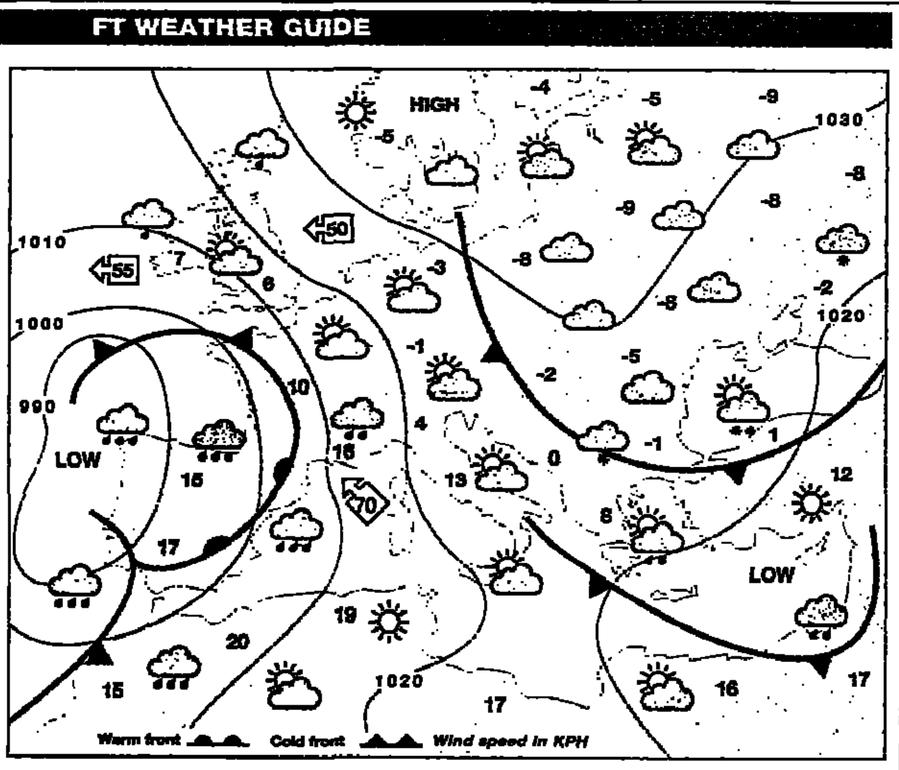
FT WEATHER GUIDE

Europe today

An active low pressure system near Portugal will cause moderate to heavy rain in Portugal, Spain and southern France. During the afternoon, rain will spread northwards. Strong to gale force south-easterly winds will buffet the Mediterranean coast of France. The UK will have mostly cloudy skies with patchy rain and sleet on higher ground. Central and eastern Europe will have moderate winds bringing cold air. These areas will remain rather cloudy. Greece will have some showers while southern Turkey will have sunny breaks. Scandinavia will see sunny periods, although temperatures will be sub-zero.

Five-day forecast

Low pressure near Portugal will move slowly northwards with its associated cloud and rain. Pressure will remain high over Scandinavia and northern Russia pushing back milder air and icy rain to the south-west during the second half of the week. Winds will remain easterly over the UK and most of the continent. In many areas, wintry conditions with sub-zero temperatures will prevail.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	cloudy	24	Beijing	sun	2	Caracas	fair	30	Faro	shower	13	Madrid	rain	7	Rangoon	sun	32
Accra	sun	31	Belfast	rain	6	Cardiff	cloudy	6	Frankfurt	fair	-2	Majorca	shower	16	Reykjavik	cloudy	4
Algiers	fair	21	Belgrade	cloudy	-1	Casablanca	rain	17	Geneva	rain	7	Malta	fair	16	Rio	cloudy	33
Amsterdam	fair	-1	Berlin	fair	-8	Chicago	cloudy	6	Gibraltar	shower	13	Manchester	fair	8	Rome	fair	13
Athens	shower	9	Bermuda	shower	21	Cologne	fair	0	Glasgow	fair	5	Manila	cloudy	30	S. Frsco	fair	11
Atlanta	sun	14	Bogota	fair	19	Dakar	fair	24	Hamburg	fair	-2	Melbourne	fair	22	Seoul	sun	2
B. Aires	fair	29	Bombay	sun	30	Dallas	shower	18	Helsinki	fair	-5	Mexico City	sun	21	Singapore	shower	31
B.ham	cloudy	5	Brussels	fair	1	Delhi	hazy	20	Hong Kong	cloudy	18	Miami	fair	26	Stockholm	snow	-1
Bangkok	fair	34	Budapest	cloudy	-4	Dubai	shower	25	Honolulu	fair	27	Milan	hazy	3	Strasbourg	cloudy	1
Barcelona	rain	13	C.hagen	cloudy	-1	Dublin	cloudy	6	Istanbul	shower	3	Montreal	fair	-7	Sydney	cloudy	23
			Cairo	fair	17	Dubrovnik	cloudy	10	Jakarta	thund	29	Moscow	cloudy	-10	Tangier	rain	18
			Cape Town	sun	28	Edinburgh	sleet	5	Jersey	cloudy	7	Munich	fair	-3	Tel Aviv	shower	15
									Karachi	fair	26	Nairobi	fair	29	Tokyo	cloudy	7
									Kuwait	fair	17	Naples	fair	13	Toronto	fair	3
									L. Angeles	fair	14	Nassau	fair	26	Vancouver	rain	3
									Las Palmas	shower	22	New York	fair	5	Venice	fair	6
									Lima	fair	25	Nice	windy	13	Vienna	fair	-3
									Lisbon	rain	10	Nicosia	fair	14	Warsaw	cloudy	-9
									London	fair	7	Oslo	fair	-5	Washington	sun	6
									Lux.bourg	fair	-1	Paris	fair	7	Wellington	fair	22
									Lyon	shower	13	Perth	sun	36	Winnipeg	cloudy	-24
									Madeira	shower	17	Prague	cloudy	-7	Zurich	cloudy	2

FINANCIAL TIMES
COMPANIES & MARKETS
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Monday January 22 1996

MARKETS THIS WEEK

PETER MARTIN:
GLOBAL INVESTOR
The narrow failure of Wal-Mart, the US retailer, to record 100 consecutive quarters of growth in earnings per share at a time when the US economy remains healthy suggests the country's retail sector is undergoing a significant shift. However, the sector is likely to embark on a fresh phase of healthy growth. Page 18

STEPHANIE FLANDERS:
ECONOMICS NOTEBOOK
Days after Mr Anatoly Chubais, the Russian deputy prime minister, said in London his country's anti-inflation policy remained on track, he was sacked. With an election approaching, efforts to subdue inflation may be relaxed, but there are now important checks on inflationary spending in Russia. Page 18

BONDS:
Coopers & Lybrand is about to unveil a report outlining comprehensive system of risk management principles for financial institutions, intended to become a common strategy for the industry. Page 20

EQUITIES:
US investors are likely to focus on earnings reports due in coming weeks and the State of the Union Address by President Bill Clinton on Tuesday. A thin list of economic news and company statements in London means the market will have to look elsewhere for inspiration, possibly to Wall Street. Page 19

EMERGING MARKETS:
Shanghai's B index, on which shares are reserved for foreign investors, has slumped by more than 50 per cent in the past two years. But provided the Hong Kong market continues its rise, most brokers believe the Chinese index should recover in the second half of this year. Page 19

CURRENCIES:
Opinions are divided over the potential for further strengthening in the dollar, but if, as some economists suspect, there are further European interest rate cuts on the way, the dollar could gain further ground against the D-Mark. Page 19

INTERNATIONAL COMPANIES:
The $10bn battle for First Interstate, the US bank, has swung heavily in favour of Wells Fargo after its rival, First Bank System, hit a regulatory obstacle to the structure of its own offer. Page 16

UK COMPANIES:
Alcan Aluminium of Canada is at an advanced stage in negotiations to sell 12 aluminium businesses in the UK to a new company headed by Mr Ian McKinnon, formerly a divisional managing director at British Alcan. No date has been set for the completion of the deal. Page 16

STATISTICS

German groups in TV decoder deal

By Judy Dempsey in Berlin

The Kirch group, one of Germany's largest media organisations, will join a consortium headed by Bertelsmann, its rival, to develop a pay-per-view standard decoding box which will pave the way for the launch of digital television this year.

The decision marks a breakthrough since it will allow both groups to pool resources to launch a system which will cost several billion D-Marks in start-up costs, instead of splitting the market between the separate decoding systems that both groups had started developing.

In December, Kirch and Bertelsmann had agreed to a standard decoding box but Kirch's stake in Multimedia Betriebsgesellschaft (MMBG) was left unresolved. MMBG, set up by Bertelsmann, was headed by Deutsche Telekom, Germany's state telecommunications network, with Bertelsmann, Canal Plus, the French commercial television group, ARD and ZDF, the German public broadcasting networks, and RTL, the commercial network, holding stakes.

The technology controlling access to decode television signals was to be run by Seca, a French company jointly owned by Bertelsmann and Canal Plus.

Under the agreement forged secretly in Frankfurt last week, Kirch will take a 50 per cent stake in a new company in which Seca, Bertelsmann and Canal Plus will also have stakes. This will develop the "conditional access system", the software required for viewers to have access to the system.

Kirch will also take a stake in MMBG, whose shareholding structure will be revamped. The two largest shareholders will be Deutsche Telekom and Vebacom, the telecommunications division of Veba, the industrial conglomerate, with 26.8 per cent and 23.9 per cent respectively. Bertelsmann and Kirch will each hold 9 per cent and the rest of the shares will be divided between ARD, ZDF, CLT, the Luxembourg television group, RTL and Canal Plus.

The agreement ends one chapter of the rivalry between Kirch and Bertelsmann. But it will also allay fears among broadcasters that programmers and viewers might have had restricted access through the system developed by Kirch.

"The key issue was making access to digital television open to a broad mix of programme makers and having one system which the market could bear," said Mr Albert Scharf, head of ARD, the state public service broadcasting network.

Forte claims 35% support as bid battle enters finale

By David Blackwell in London

Forte yesterday claimed the support of holders of at least 35 per cent of its shares as its £3.5bn ($5.4m) bid battle with Granada, the UK television, leisure and catering group, neared a climax.

The claim came on the eve of a decision by Mercury Asset Management on whether to back Granada's offer for Forte, the UK's largest hotel group, in one of the country's most fiercely contested takeover battles in the past decade.

MAM has a 15 per cent stake in Forte and will probably decide its fate. Forte's assumption of 35 per cent does not include MAM's stake. It is hopeful of gaining the asset manager's support and believes it can win without it.

MAM has a 15 per cent stake in Granada, led by Mr Gerry Robinson, and has strongly supported it in the past. It heard final presentations from both sides on Friday, and is expected today to meet Whitbread, the brewing and leisure group that will buy Forte's roadside restaurant businesses for £1.05bn if the hotel group survives the bid.

The offer closes at 1pm tomorrow.

"We believe MAM are playing this dead straight and will make their decision today," Mr Richard Power, Forte communications director said yesterday. "If they go for us it will be very difficult for Granada to win, but if not, it will still be run right to the wire."

Granada said yesterday whatever claims Forte cared to make, it remained "quietly confident".

Forte has not let up in its vigorous defence against Granada. On Friday night, it agreed to sell 67 of its 72 White Hart hotels for £122m to the Regal hotel group. Earlier, Sir Rocco Forte, chairman and chief executive, spent £14.7m on shares in the group founded by his father in 1935. Following Sir Rocco's purchase, the Forte family and directors speak for 8.4 per cent of the shares. Private investors, most of whom are expected to back the group, hold 15 per cent.

Granada made most of the running last week, buying up just under 10 per cent of the hotel group's shares. By the end of the week, several large institutional investors in Forte, together holding 11 per cent, indicated they would be backing the bid. However, many fund managers have left their decision until today.

NatWest Investment Management, which has just over 1 per cent of Forte and 0.7 per cent of Granada, said last week that Granada was not paying enough. Mr Mark Wasilewski, director of NatWest's UK equities, said Granada's record "speaks volumes. But despite their credentials they have not convinced us of the strategic logic. It is better for shareholders to have a concentrated Forte and a less diversified Granada."

However, most analysts have urged shareholders to back Granada. NatWest Securities recommended acceptance and Kleinwort Benson said it believed there was "less risk for Forte shareholders in accepting Granada's revised offer now than waiting for the Forte NewCo to deliver in the years ahead".

Regal details, Page 16

Final fling: Gerry Robinson, Granada chief executive, at London Weekend Television studios yesterday. Granada said it remained 'quietly confident' of winning the bid battle for Forte *Picture: Brendan Orr*

SBC Warburg faces limit on US operations

By Norma Cohen in London

SBC Warburg will have to curtail its US securities operations unless the investment bank's lawyers can strike a deal with regulators in negotiations for a bank securities licence.

The move would be a setback for SBC Warburg, which was formed after Swiss Bank Corporation's 1995 acquisition of S. G. Warburg, the UK investment bank. Swiss Bank wants to strengthen its presence in the US securities market and hoped integrating Warburg 's US securities operation into its own would help it to do so.

US banking laws constrain securities activities by banks, except under very limited circumstances. Under Section 20 of the Glass-Steagall Act, banks are permitted to derive no more than 10 per cent of total revenues from the distribution and underwriting of corporate securities.

The failure of Congress last year to repeal Glass-Steagall has heightened concerns among European institutions that they will be effectively banned from making significant US acquisitions, although US firms are free to acquire European competitors.

Federal Reserve officials note US banks are forbidden from purchasing US investment banks. But the US is unusual in having separate banking and investment institutions, and in Europe there is no separate investment banking industry. Barring bank ownership of securities firms effectively bans Europeans from competing in the US market, European bankers say.

SBC received a temporary exemption to Glass-Steagall last May, permitting it to proceed with the acquisition of Warburg. But its subsequent application to retain all US operations has not been approved, and regulators say this will not happen until it meets their requirements.

SBC was initially given a year to reduce its securities business, abandon its US banking activities, or restructure its activities so that it no longer falls foul of Glass-Steagall. Its lawyers have been negotiating with the Fed since last summer. S. G. Warburg's US operations have not been integrated into SBC and are the only part of the firm still carrying the former name. SBC has been unable to realise the merger cost savings it hoped for. "We can't have common marketing trips, we can't manage accounts in a single location," said one SBC Warburg official.

Other banks which have struggled with US regulators include Bayerische Vereinsbank which in December abandoned an attempt to purchase US-based Oppenheimer Group because US banking regulators failed to agree to approve the deal quickly.

SBC Warburg declined to comment.

TI wins ruling in US fraud action

By Tim Burt in London

TI Group, the specialist UK engineering and aerospace components manufacturer, has won an important legal ruling in New York in its fight against a $60m (£39m) fraud action brought by the US justice department.

The group was accused of inflating labour costs and raw material prices during a 10-year scheme allegedly to defraud the US Air Force.

However, Judge Louis L. Stanton decided the district court for the southern district of New York had no jurisdiction to try the case. The action was seen as a test case on both sides of the Atlantic. It was the first lawsuit in which the US government had pursued fraud action against a company supplying components from outside the country.

Attorneys in New York said the justice department would seek an appeal and reserved the right to pursue separate actions in California and Oklahoma, the states where TI signed contracts with the US Air Force.

TI welcomed the judge's decision, even though it could be overturned on appeal. "The judge has decided there is no case to answer on the basis of jurisdiction," the group said.

The lawsuit was filed last April following a "whistle-blower" action by Mr Jeffrey Thistlethwaite, a former manager at Dowty Woodville Polymer, the TI subsidiary which manufactured wing seal slots for US swing-wing aircraft.

As part of the case, Mr Thistlethwaite would have been entitled to a share of any damages awarded. He alleged that Dowty Woodville Polymer falsified documents and withheld the true costs of manufacturing thousands of components for the F-111 strike jet and the B1-B bomber.

It won those orders in the 1980s under fixed-price contracts, in which it was supposed to disclose production costs and propose a percentage profit.

The justice department also alleged that Dowty Woodville Polymer violated the False Claims Act, the Truth in Negotiations Act, breached contracts, was "unjustly enriched" and received "payments made under mistake of fact".

All the charges have been denied by TI Group, which acquired Dowty Woodville Polymer as part of its £510m ($790m) acquisition of Dowty in 1992.

This week: Company news

US OILS

Downstream to hold back profits in fourth quarter

A jump in natural gas prices and some increase in the oil price should result in higher upstream, exploration and production profits when US energy groups report their fourth-quarter earnings over the coming days. This will be balanced, though, by weak profit margins from the downstream, refining and marketing business in the US, and a continuing decline in earnings from petrochemicals.

Among those to register the best year-on-year profit advances should be Amoco, which relies for a higher proportion of its earnings on natural gas, and Mobil, which is less dependent on downstream activities in the US.

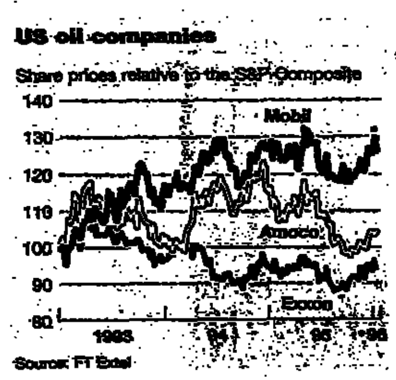
The mean estimate of IBES, which surveys analysts' predictions, suggests quarterly earnings of $1.05 a share at Amoco, up from 88 cents a year ago, and $1.75 at Mobil, compared with $1.61. Texaco is expected to earn $1.10 a share, up from 99 cents the year before, while Exxon's earnings per share should climb by 5 cents to $1.24.

Chevron has warned that its fourth-quarter profits will be hurt by the shut-down of a West Coast refinery. IBES puts earnings at 66 cents a share, down from 91 cents.

Those energy groups which rely heavily on income from chemicals operations are likely to register a continuing slowdown in earnings, stemming from a steady fall in the price of basic petrochemicals since the middle of the year.

This will result in lower chemicals earnings than in the third quarter – though year-on-year comparisons should still show an improvement in most cases.

Analysts expect Atlantic Richfield to report earnings of $1.78 a share, down from $1.87 a year before, while Occidental Petroleum's earnings are expected to be close to the 18 cents a share of the final quarter of 1994.



Source: FT Extel

US AIRLINES

Strong gains despite price pressures

US airlines are expected to report fourth-quarter earnings this week sharply higher than the previous year despite strong competition from low-cost carriers which put pressure on prices through the year, analysts said, reports AFX News in New York.

However, they said the outlook for more moderate economic growth in 1996 could cloud an otherwise buoyant earnings outlook. Mr Jim Higgins analyst at Donaldson, Lufkin & Jenrette, said the general performance of the airlines was good in the fourth quarter and he expected "substantially higher earnings" than a year earlier, with positive earnings surprises more likely than negative ones.

Mr Higgins said the industry benefited mostly from a lack of supply and although traffic was at all-time high levels it was not rising a lot. Mr Julius Maldutis, analyst at Salomon Brothers, said the US airline industry was "well on the way to record earnings in 1995 that will probably exceed $2.5bn".

USAir Group is scheduled to post results today and analysts expect earnings of 60 cents a share compared with a loss of $2.23 a year earlier. The company said in December it expected earnings to exceed the high end of analysts' estimates. UAL, United Airlines' parent, is expected to report earnings tomorrow of $3.12 a share, compared with a loss of 98 cents.

OTHER COMPANIES

Party time at 100-year-old Roche

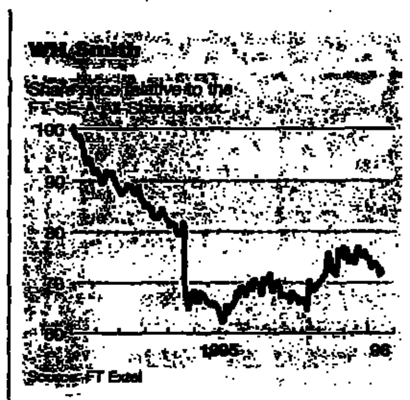
■ **Roche:** The world's largest pharmaceuticals company by market capitalisation tomorrow kicks off a year's celebrations of the 100th anniversary of its founding.

Among the early events is the publication of a frank history of the company. It includes accounts of some of the damaging events of the 1970s, including the Seveso chemical accident, which led to hundreds of illnesses, and the affair involving Mr Stanley Adams, a former employee who accused Roche of violating European Community law.

■ **Coca-Cola:** The US soft drinks company recently saw its share price soar amid optimism over its prospects for overseas growth. But on Thursday, when the company reports fourth-quarter results, it is likely to confirm earlier forecasts that weakness in Mexico and Latin America held back the increase in international volumes to a modest 5 per cent.

Even so, that should be enough to keep profits moving well ahead: and with an unusually strong performance from the domestic side of the business, analysts are expecting the company to report a 15 per cent increase in net profits to $650m, lifting earnings per share from 44 cents to 52 cents.

■ **Unitech:** The international electronic components and controls group is expected to report increased interim pre-tax profits of about £20.5m ($32m) on Thursday, up from £15.8m last time.



Source: FT Extel

■ **WH Smith:** The UK retailer is expected on Wednesday to announce a sharp drop in interim profits from £45m to £17m ($26m), because of higher losses at Do-It-All, the joint venture with Boots, the retailer; a sharp rise in interest; and provisions of about £20m. High street rival John Menzies is today likely to announce a fall in first-half pre-tax profits from £7.3m to about £5m.

■ **NFC:** Lively questioning can be expected at the annual general meeting on Saturday of the UK transport and logistics group. It is usually one of the best attended company meetings.

Shareholders will have their first opportunity at the Bedford meeting to quiz several of the group's new board members, including Mr Gerry Murphy, chief executive, about its poor profit performance and flagging share price.

Companies in this issue

Alcan plans £200m UK sale

By Richard Lapper

Canada's Alcan Aluminium is at an advanced stage of negotiations to sell 12 aluminium businesses in the UK to a new company headed by Mr Ian McKinnon, formerly a divisional managing director at British Alcan.

No date has been set for completion of the deal, which is thought to be worth between £170m and £200m, although the company said last week that it hoped to have "largely completed" the divestment of all non-strategic businesses by the middle of this year.

A consortium of UK institutions, led by Mercury Development Capital, the development capital arm of Mercury Asset Management, and also including Morgan Grenfell Development Capital and CVC Capital Partners, is backing the new company.

Mr McKinnon came to prominence in the 1980s when he led a management buy-out of Leyland Bus and then sold the company in a multi-million pound deal.

Alcan originally announced its plans to sell the downstream businesses – which make products ranging from high pressure gas cylinders for fire extinguishers to aluminium foil – in March last year. Talks with the consortium members have been under way since June. Among the 12 businesses to be sold are Luxfer Gas Cylinders, Magnesium Elektron and MEL Chemicals.

The downstream businesses, which account for roughly half of British Alcan's assets, employ 4,300 people and last year generated sales of £500m.

The sale is in line with a strategic review in 1993 when the company decided to focus on "core" businesses such as bauxite refining, smelting and rolled aluminium. Since then Alcan has disposed of several businesses in North America, Brazil and the UK and a 73 per cent shareholding in Alcan Australia.

The company originally invested in downstream business in order to reach customers for its primary aluminium production and rolling mills. In a recent statement Alcan said this strategy "no longer made sense in the 1990s, where end-user markets were more developed [and] highly competitive". The "cyclicality of primary aluminium" also meant that "downstream investment frequently suffered in favour of core assets".

Streamline float valued at £100m

By Christopher Price

The supplier of traffic cones and painter of white lines on Britain's highways is coming to the stock market next month in a flotation expected to value the company at over £100m.

Streamline Holdings, which specialises in road services and building products, was a £72m management buy-out from Shell in 1993. It hopes to raise £20m in new money which will be used to pay the venture capitalist investors.

Gearing would reduce to around 30 per cent, with interest cover of 15 times after the float.

Forty-eight members of the management own 12 per cent of the pre-float equity. It has not been decided whether they will sell any of their holdings.

Since the buy-out three years ago, operating profits have risen 60 per cent from £9.5m to an unaudited £15.2m in 1995. Turnover, which is split almost equally between the UK and France, has risen 18 per cent to £152m. Margins rose from 9.1 per cent in 1994 to 10 per cent last year.

Streamline is the UK's biggest manufacturer and applier of road markings, with the business accounting for 44 per cent of group sales. The company also supplies road surface products and traffic safety equipment.

Mr Terry Simpson, chief executive, said the business benefited from the trend towards greater car density and limits on public expenditure. "As the government road's programme slows and the number of cars increases, the greater the need to make existing road systems more efficient."

A growing area of interest for the company is in highway maintenance which is being contracted out from local councils. Streamline now runs six local authority contracts, three of which were won in the past six months of the year. Mr Simpson said the potential market size was around £500m a year.

The building products division specialises in roofing, flooring and structural waterproofing materials. It produces around 27 per cent of group profits.

Terry Simpson: benefits from greater car density

Regal deal would boost number of hotels to 89

By David Blackwell

Regal Hotel Group, the provincial chain which gained a full listing in May last year, would quadruple the number of its hotels if the £122m deal to buy Forte's White Hart chain went through.

The group, which is 75 per cent held by institutions, started life with three hotels in 1993 and now has 22. The White Hart additions would give it a total of 89.

Mr Charles Vere Nicoll, chief executive and one of the founders, said yesterday that the deal would give the group a large presence at the smaller end of the three-star provincial hotels market.

He would be meeting institutional shareholders this week to discuss financing for the deal, which would involve some form of equity raising.

Regal has agreed to pay £90m cash, with the remainder in 6 per cent redeemable convertible preference shares.

The deal is conditional on the failure of Granada's bid for Forte. The bid's outcome will be decided on Tuesday.

Granada yesterday attacked the sale agreement. Even if it went ahead, "it is the wrong time to be selling anything," said Mr Charles Allen, Granada's chief executive designate.

Wells Fargo gains edge in First Interstate battle

By Richard Waters in New York

The $10bn battle for First Interstate, a Californian bank, swung heavily in favour of Wells Fargo on Friday as its rival, First Bank System, hit a regulatory obstacle to the structure of its own offer.

The regulatory ruling, from the Securities and Exchange Commission, would prevent First Bank from making any big stock repurchases for two years if it succeeds in merging with First Interstate.

The bank had intended to buy back some $2.5bn of its own stock this year and in 1997, a plan central to its financial justification for the deal.

The SEC restriction stems from First Bank's plans to use a method of accounting known as pooling of interests, a form of merger accounting in which no goodwill is recognised after the deal.

This accounting approach is commonly used in all-stock transactions, since the merged company does not have to write off the goodwill against future profits, as would be required under US rules.

The use of pooling, though, severely limits the circumstances in which a company is allowed to buy back stock.

Mr Richard Zona, First Bank's chief financial officer, said he was "extremely surprised" by the SEC's ruling. Both the bank and its auditors, Ernst & Young, believed the agency had not followed published guidance in reaching its view, he added.

Mr Zona claimed, though, that First Bank would still be able to achieve financial returns "comparable" with those it had projected earlier by making additional acquisitions and through other growth plans.

Wells Fargo greeted the SEC ruling enthusiastically, saying it "materially lowers the value" of its rival's offer.

Wells Fargo, for its part, has said it would use purchase, or acquisition, accounting for First Interstate, a move that would create a large amount of goodwill, but which would allow it to engage in big share repurchases of its own.

The competition for First Interstate had already tilted in Wells Fargo's favour in recent weeks as the value of its all-stock bid has drifted above that of First Bank.

By the end of Friday, Wells Fargo's offer was worth around $144⅝ for each First Interstate share, compared with the $126⅛ value implied by First Bank's bid.

First Interstate's shareholders are expected to be asked to vote on the two offers in February or March. Both plans also need approval from anti-trust and banking regulators.

Ebner considers withdrawing court actions against UBS

By Frances Williams in Geneva

Mr Martin Ebner, the Swiss financier whose BK Vision investment fund is the largest shareholder in Union Bank of Switzerland, is considering withdrawing his civil court actions against the bank.

Mr Ebner confirmed he was considering withdrawing the injunction and lawsuits, which were launched against the board's resolution, passed at a shareholders' meeting in November 1994 to convert its registered shares into bearer shares.

Such a move would lead immediately to the unification of UBS's share structure in that all shares would be bearer shares with equal voting rights.

Swiss newspapers reported at the weekend that Mr Ebner was confident he had the support of holders of a majority of the UBS capital for his plans to make the bank more profitable.

UBS bearer shares have risen sharply in the past two weeks. Analysts believe several international investors have bought shares in anticipation of big gains as the protracted confrontation with Mr Ebner ends and the bank sharpens its performance.

Mr Ebner described reports that he and his allies had a majority of UBS capital as "exaggerated", but acknowledged BZ had been acquiring UBS shares on behalf of clients. How those shares were voted was a matter for the owners, he added.

The BZ group now held about 10 per cent of UBS capital, most of it in registered shares. Under present voting restrictions, it had voting rights for only 5 per cent.

UBS said the possibility of an end to the lawsuits showed Mr Ebner was facing increasing pressure from investors disappointed with the poor performance of the bank's shares since the suits were launched in December 1994. "He should have withdrawn the challenges long ago," it said.

Mr Ebner also said at a press conference on Friday that he was considering putting up a candidate for UBS chairman to oppose Mr Robert Studer, its chief executive and UBS board nominee, at the annual shareholders' meeting on April 16.

He said he was concerned to ensure that an alternative candidate was available in case the UBS board withdrew Mr Studer's nomination in the event of criminal charges being brought against him.

The Zurich prosecutor is investigating criminal charges filed by BK Vision last March against Mr Studer and other UBS executives for allegedly wilfully damaging the bank through own share purchases on unfavourable terms.

The charges arose out of share purchases by UBS ahead of the November 1994 shareholders' meeting and cannot be withdrawn by Mr Ebner.

"We would be very unlikely to field a competitor to Mr Studer if he remains in the running," Mr Ebner said. UBS said none of its executives had done anything illegal and the board was standing by Mr Studer.

Borland lower despite third quarter recovery

Borland International, the US software company, is making a comeback following deep cutbacks, management changes and the sale of its flagship application programmes, writes Louise Kehoe.

The USM-traded concern reported pre-tax profits of $1.06m (£680,000) for the three months ended December 31, compared with $22.9m losses last time. This boosted the figures for the nine months to the same date to $7.87m (£5.11m) although this was much lower than the previous $49.7m.

Borland, one of the largest US personal computer software companies in the late 1980s, declined in the face of mounting competition from Microsoft.

Borland was also drained by a five legal battle with Lotus Development over software copyright issues associated with its spreadsheet program.

Earlier this month the US Supreme Court upheld an Appeals Court ruling in Borland's favour in the long fought case.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
L'Oréal (France)	Maybelline (US)	Consumer products	£373m	Cash offer raised
Benckiser (Germany)	Maybelline (US)	Consumer products	£336m	Surprise bid
National Industries (Kuwait)	BI Group (UK)	Engineering	£96.3m	Agreed bid
Fairey Group (UK)	Particle Measuring Systems (US)	Electronics	£49m	Cash & paper deal
Pillsbury (US)	Pasta Homes (Australia)	Food	£48.5m	Pacific Dunlop disposal
McKechnie (UK)	Thompson International (US)	Auto components	£42m	Claiming niche leadership
Morgan Crucible (UK)	Wilfried Liphardt (Germany)	Engineering	£16.5m	German expansion
DSM (Netherlands)	Chemie Linz (Austria)	Chemicals	n/a	Sale by OMV
ICI (UK)	Ibernobel (Spain)	Explosives	n/a	51% stake agreed
Weir Group (UK)	Salweir (S Africa)	Pumps	n/a	license bought

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 21.01.96 Pool purchase price £/MWh	Final Prices for Trading on 24.12.95 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.01	8.93	8.93
0100	14.54	8.99	8.42
0130	15.01	6.99	8.42
0200	15.01	6.99	8.42
0230	14.54	6.99	8.42
0300	14.54	6.99	8.42
0330	14.54	8.93	8.93
0400	14.54	8.92	8.92
0430	8.95	8.91	8.91
0500	8.93	8.86	8.86
0530	8.92	8.91	8.91
0600	8.92	8.91	8.91
0630	8.92	8.90	8.90
0700	8.92	8.90	8.90
0730	8.89	8.89	8.89
0800	8.89	8.89	8.89
0830	8.88	8.92	8.92
0900	8.92	9.10	9.10
0930	8.92	9.98	8.98
1000	10.02	13.55	14.98
1030	10.05	13.55	14.98
1100	13.92	13.55	14.98
1130	14.55	13.55	14.98
1200	14.55	13.55	14.98
1230	21.25	13.55	14.98
1300	21.25	13.55	14.98
1330	15.08	13.56	14.98
1400	9.04	13.55	14.98
1430	9.02	10.89	10.89
1500	9.00	10.11	10.11
1530	9.00	10.11	10.11
1600	9.00	10.90	10.90
1630	9.02	15.01	16.45
1700	30.95	17.10	18.54
1730	33.34	16.73	18.16
1800	33.34	17.10	18.54
1830	33.34	17.10	18.54
1900	33.34	17.10	18.54
1930	33.41	15.01	16.45
2000	28.22	14.31	15.75
2030	15.28	14.31	15.75
2100	15.06	13.87	15.30
2130	15.08	13.68	15.12
2200	15.09	13.55	14.98
2230	13.75	10.90	10.90
2300	13.75	10.89	10.89
2330	9.04	9.09	9.09
2400	8.94	9.10	9.10

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 22.01.96 Pool purchase price £/MWh	Final Prices for Trading on 25.12.95 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.04	11.92	11.92
0100	13.77	18.81	20.54
0130	15.08	18.81	20.54
0200	15.08	18.81	20.54
0230	13.97	17.47	19.21
0300	15.08	14.66	16.40
0330	15.06	14.66	16.40
0400	9.01	13.55	15.28
0430	8.96	10.89	10.89
0500	8.96	8.94	8.94
0530	9.01	9.09	9.09
0600	8.98	9.09	9.09
0630	9.02	9.09	9.09
0700	9.06	9.09	9.09
0730	27.38	9.10	9.10
0800	32.37	9.10	9.10
0830	28.11	9.10	9.10
0900	34.87	10.90	10.90
0930	30.22	14.54	16.27
1000	36.98	14.54	16.27
1030	37.23	14.54	16.27
1100	36.15	14.54	16.27
1130	36.78	15.56	17.29
1200	55.15	18.11	19.85
1230	54.81	20.28	22.02
1300	41.48	20.28	22.02
1330	40.10	15.56	17.29
1400	34.62	14.54	16.27
1430	35.06	9.99	11.72
1500	34.58	10.90	10.90
1530	49.54	9.09	9.09
1600	32.96	9.09	9.08
1630	50.01	10.89	10.89
1700	120.45	9.99	11.72
1730	176.82	9.99	11.72
1800	171.68	9.99	11.72
1830	103.25	9.99	11.72
1900	51.05	9.99	11.72
1930	35.31	9.99	11.72
2000	27.86	9.99	11.72
2030	25.31	6.03	7.76
2100	36.37	10.89	10.89
2130	36.32	9.09	9.09
2200	13.46	9.10	9.10
2230	23.52	9.10	9.10
2300	12.56	8.92	8.92
2330	9.05	8.92	8.92
2400	9.01	9.10	9.10

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COMPANIES AND FINANCE

Fokker looks for a miracle to keep it in the air

Ronald van de Krol reports on the predicament of the ailing Dutch aircraft manufacturer

If Daimler-Benz of Germany shuts off its financial support to Fokker today, the ailing Dutch aircraft maker's first priority will be to avoid being pushed immediately into bankruptcy or even an interim step, such as protection from its creditors.

A breathing space of several weeks or months might enable Fokker to save parts of the company if it needs to continue on its own without the financial resources of Daimler-Benz, its controlling shareholder.

However, to do this, Fokker would probably have to rely on interim financing from the Dutch government. Some politicians have calculated this would cost the taxpayer some Fl 4m ($2.4m) a day.

A commitment to such temporary support may emerge from a meeting scheduled this afternoon between Mr Hans Wijers, the minister of economic affairs, and the Dutch parliament's standing committee on economic affairs.

It was the obvious reluctance by the government, a minority shareholder, and Daimler-Benz to pump large amounts of new money into Fokker that precipitated a meeting today of Daimler-Benz's supervisory board in Stuttgart.

The Dutch may try to prop up Fokker for a short time, but it would be unlikely to be for long because of the cost.

Fokker's prospects for survival, perhaps in slimmed down form, are far bleaker than they were for Daf, the Dutch truck manufacturer, which collapsed under the weight of its debts in 1993.

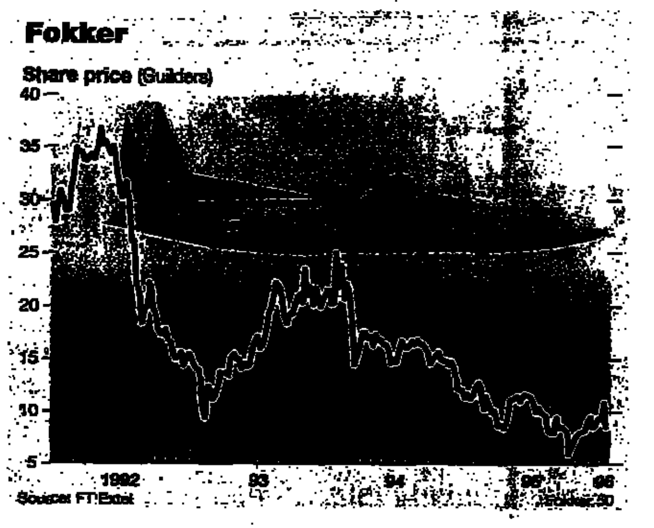
After the original Daf filed for administrative receivership, a smaller successor company, Daf Trucks, was set up with the help of the Dutch and Belgian authorities.

Assets from the defunct Daf were bought by the new Daf. With a reduced workforce, without its former UK operations and with a balance sheet largely free of debt, the new company was quickly able to turn a profit and survive.

Fokker's predicament is different. It does not have heavy bank debt and relies instead on the financial commitment of Daimler-Benz.

Nor could it pare its workforce radically, as the number of employees has already been halved since the early 1990s.

With the aviation market barely starting to emerge from a long recession, there is also no guarantee that a "new" Fokker would survive in such a capital-intensive industry.



Source: FT Extel

Its future would also be highly dependent on the level of the dollar, the international currency of the aviation industry. The guilder's strength against the dollar has made it impossible for Fokker to sell aircraft assembled in the Netherlands at a profit in recent years.

Two, Fokker operations which might survive would be Fokker Special Products – a defence subcontractor involved in projects such as the repair of Patriot guided weapon systems in Europe – and Fokker Aircraft Services, an aircraft maintenance company.

But the core of Fokker's business, construction of three regional aircraft, the Fokker 50, 70 and 100, would be most vulnerable to collapse.

Bombardier of Canada, which makes business jets and 50-seater aircraft, has been cited as having a possible interest in bidding for Fokker's 70-seater and 100-seater jet operations. The Canadian company's subsidiary in Northern Ireland, Short Brothers, produces wings for these aircraft. However, Bombardier has said it had no plans to bid for Fokker.

Mr Richard Brakenhoff, transport analyst at MeesPierson, the Amsterdam-based merchant bank, is sceptical that the Canadians may be interested. "Fokker is a guilder-based company, so for currency reasons alone it would be very difficult," he said.

Equally unlikely is the oft-sought "European solution", whereby Fokker and Daimler-Benz would join up in regional aircraft with Europe's other three manufacturers, British Aerospace, France's Aérospatiale and Alenia of Italy.

This vision has proved elusive in the past, and Fokker's competitors will not now be interested in saving a rival producer.

However, even abandoning Fokker would be expensive both for the government and for Daimler. The government would stand to lose Fl 1bn in credits and loans extended in the past, plus the unemployment benefits it would have to pay, at least temporarily, to its 7,800 remaining employees. Daimler-Benz, meanwhile, would lose its initial Fl 686m investment in Fokker shares in 1993, Fl 900m in capital injections since 1993, and its financial guarantees given to Fokker since the summer, which are believed to total around Fl 1bn.

Walking away from Fokker would also create contingent liabilities for the future flowing from the company's aircraft leasing contracts.

If the company went bankrupt, the residual value of the aircraft would fall, but the leasing commitments would remain intact.

Fokker admitted last week it was examining "all scenarios", though it continued to hold out the possibility of a "miracle" emerging from the crucial Daimler meeting.

It knows that protection from creditors and other steps towards a possible bankruptcy would undermine its credibility, making it extremely difficult for a resurrected Fokker to win back old customers.

"In our business, relations with customers are practically like marriages. They last 20 years or more and are based on trust and continuity," Fokker said.

BPI in offer for competitor

By Peter Wise in Lisbon

Banco Português de Investimento, Portugal's biggest investment bank, has made a public offer of Es132bn ($863m) for 100 per cent of Banco Fomento e Exterior, one of its main competitors.

The acquisition, Portugal's third big bank takeover bid in less than a year, would more than double BPI's total assets to more than Es2,800bn, making it the country's fourth largest banking group.

BPI, currently the sixth biggest group, is offering Es1,650 a share, 20.6 per cent more than BFE's average share price over the past year. BFE shares closed at Es1,583 on Friday.

The bid is the latest move in the consolidation of Portuguese banks. The leading groups are seeking to increase market share and cut operating costs in response to tougher competition.

Because the state controls 80.5 per cent of BFE, the offer amounts to a privatisation proposal and its success depends on a favourable decision from the new Socialist government.

The Socialists were severely critical of the previous centre-right government's handling of two successful takeover bids made for two partially-privatised banks last year.

The acquisitions made Banco Comercial Português and Banco Totta e Açores the country's second and third largest financial groups respectively.

Analysts raised doubts yesterday over the legality of the government privatising its majority stake in BFE, the fifth largest bank, in response to a takeover bid. BCP and BTA's bids involved privatising minority holdings.

Mr Artur Santos Silva, BPI president, said the offer sought to overcome potential difficulties over minority shareholders' rights and dividend payments – important issues raised by opponents of last year's bids.

He said BPI would consider the bid successful if it acquired 80 per cent of BFE, which focuses on corporate and trade finance. However, it was prepared to buy 100 per cent so that shareholders who paid Es1,200–Es1,300 a share when 19.5 per cent of BFE was privatised in December 1994 would have the opportunity to sell at the offer price.

BPI will also pay 1995 dividends of up to Es90 a share to BFE shareholders who take up the offer, he said. BPI may make a capital increase of Es10bn-Es20bn through a rights issue.

Benckiser to 'outbid' L'Oréal

By Richard Tomkins in New York

Benckiser, the German consumer products group fighting a takeover battle for Maybelline, the US cosmetics company, says it is prepared to outbid last week's increased offer from France's L'Oréal, valuing Maybelline at $567m.

However, it has not said how much it will pay: and it has made the unusual suggestion that Maybelline should invite L'Oréal and Benckiser "to submit their best and final offer in a final round of bidding".

Benckiser's latest position was set out in a letter Maybelline made public on Friday. It followed the increased bid from L'Oréal the day before of $41 a share cash for Maybelline's common stock. Maybelline has yet to respond to either move.

As before, Benckiser's latest letter appeared to stress its reluctance to fight a bid battle. It said any higher offer was subject to the condition that it would not "simply be used to induce L'Oréal to match or better that offer".

Benckiser also said a higher offer would be subject to the introduction of a stockholder rights plan that would prohibit L'Oréal from accumulating more Maybelline stock at a price lower than that offered by Benckiser.

In spite of the conditions and Benckiser's unusual stance, the continuing increase in Maybelline's share price indicates that Wall Street regards the tussle as a straightforward takeover battle. On Friday, Maybelline's share price put on another $2¼ to close at $44⅞.

Maybelline, the second biggest cosmetics company in the US, would make a valuable prize for a European company seeking to expand in the world's biggest cosmetics market.

L'Oréal, however, has a substantial North American presence through its US subsidiary Cosmair, which it took over nearly two years ago. This has made it the fourth largest cosmetics company in the US, so its bid for Maybelline could face anti-trust problems.

Benckiser, meanwhile, faces a different obstacle. About 30 per cent of Maybelline's stock is owned by Wasserstein Perella, the New York investment house. Before Benckiser appeared on the scene, Wasserstein Perella entered a binding commitment to tender this stake to L'Oréal.

Wasserstein Perella can only be absolved from this if L'Oréal agrees or, the deal is blocked on anti-trust grounds.

NEWS DIGEST

German loan role for foreign banks

Foreign banks will shortly be given a greater role in helping set conditions for German government loans, said Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank. Several big foreign banks would be included in the inner committee which advises on the terms of government loans. This committee, with 19 members and only one foreign bank (Citibank), is formed from the federal bond consortium of 98 banks (of which 48 are foreign).

Mr Gaddum said the move would take account of the increasing international significance of German government paper. However, he rejected calls for a change in the central bank's opposition to government issuance of short-term debt. Such arguments have also come from within the Bundesbank. Some banks whose role in the bond consortium had diminished would leave the inner committee to make way for the foreign banks, which Mr Gaddum did not identify. He said the Bundesbank did not intend to drop the consortium system in favour of a primary dealer system, as used in the US.

Andrew Fisher, Frankfurt

Cariplo moves nearer sale

The flotation of Cariplo, Italy's largest savings bank, has moved a step closer with the announcement that Goldman Sachs, the US investment bank, is to advise on obtaining a stock market listing this year. The appointment, announced by the Cassa di Risparmio delle Provincie Lombarde, the charitable foundation which wholly owns Cariplo, comes from a short-list of three, which also included Morgan Stanley of the US and UBS of Switzerland. Goldman Sachs has acted as global co-ordinator in two other Italian flotations, the privatisation of the bank Credito Italiano (Credit) and Ina, the insurer. The foundation reiterated its intention to give up majority control.

The initiative follows an attempt at a more limited flotation and an increase in capital which was shelved when stock market conditions proved unfavourable. The flotation of Cariplo, with net assets of over L10,000bn ($6.3bn), may include a private placement as well as a public offer and may be accompanied by a capital increase. *John Simkins, Milan*

French bancassurance venture

Société Générale, one of France's largest banks, is to team up with Commercial Union of the UK and Assurances Générales de France to sell non-life insurance policies from the start of 1997. The move is the latest step in the trend towards "bancassurance" by which banks and insurers form links to boost sales.

Société Générale will hold 60 per cent of a newly-created company to manage the service, with the remaining stake split equally between CU and AGF, which hold 3 per cent and 2.7 per cent investments respectively in the French bank.

Andrew Jack, Paris

■ Crédit Foncier de France, the specialist property bank, has agreed to consult with all its employees before going ahead with plans aimed at reducing its costs by more than 30 per cent. The move follows disruption by unions on Friday, during which Mr Jean-Claude Colli, the governor, and other directors were held in the bank's offices until late into the evening. The company has suffered a sharp fall in its share price and incurred growing borrowing costs. Last week Caisse des Dépôts et des Consignations, the state-backed financial institution, agreed a line of credit of up to FFr25bn ($4.95bn), secured against some of its assets, to help the bank for 14 months. *Andrew Jack*

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, January 19, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7174.88	4750.00	3211.83	4609.85
Albania	(Lek)	144.479	95.6500	64.6721	90.8142
Algeria	(Dinar)	80.6673	53.4043	36.1084	50.7043
Andorra	(French Fr)	7.6954	5.0488	3.4133	4.7931
[illegible]					

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	367.062	243.000	164.300	230.715
Greenland	(Danish Krone)	8.6405	5.7203	3.8677	5.4311
Grenada	(E Carib $)	4.0784	2.7000	1.8256	2.5635
Guadeloupe	(Local Fr)	7.6254	5.0483	3.4133	4.7931
[illegible]					

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	51.6830	34.2158	23.1344	32.4859
Panama	(Balboa)	1.5105	1	0.6761	0.9494
Papua New Guinea	(Kina)	2.0221	1.3387	0.9051	1.2710
Paraguay	(Guarani)	3021.00	2000.00	1352.27	1898.88
[illegible]					

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FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

Signs from two frontiers in the US

What on earth is happening in US retailing? The news last week that Wal-Mart would fail to reach its longed-for record of 100 consecutive quarters of growth in earnings per share is just the latest piece of bad news.

Indeed, by the standards of the rest of the sector, Wal-Mart's performance scarcely counts as bad news at all. Sam Walton's discount chain has, after all, achieved 99 quarters of growing earnings, and fell short of its century by only a few cents.

Still, the Wal-Mart story illustrates the gaps in the various explanations of the retailing phenomenon. For Wal-Mart is itself supposed to be the agent of change – in costs, logistics, and competitive aggression – which is helping to transform retailing.

If it too is suffering from diminished expectations at a time when the US economy remains healthy there is clearly something else at work.

Is it the structural over-supply of retailing services? Consumer malaise? A shift at the margin towards the consumption of services rather than goods? A sign of the way baby-boomers are re-orienting their spending priorities as they face the inevitability of retirement? Or a reflection of an industry in which perceived value has been systematically destroyed by year-round discounting?

The answer matters to international as well as US investors since in this industry what happens in America has shaped developments in the rest of the world – think of the invention of the department store, supermarket and out-of-town shopping mall.

The string of bad news in US retailing suggests that, whatever the cause, the sector is in a destructive phase from which some new pattern of healthy growth will emerge. Until last week, Wal-Mart seemed to be a central part of that future; it probably still is. But the shape of that future looks more uncertain than it did a week ago.

■ **BETA REVIVED**

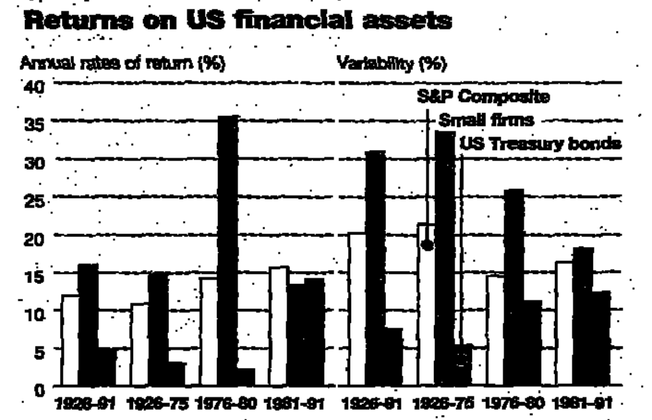
Here is the news from the frontier where financial theory meets investment management: Beta is not dead.

Beta – the way a company's share price tends to move relative to the market as a whole – is one of the principal tools investment managers derived from the revolution in financial theory over the past three decades. In recent years, however, the combination of practical shortcomings and theoretical criticism led academics and financial journalists alike to write its obituary.

But a new wave of academic research – conveniently summarised in an article in the Minneapolis Federal Reserve Bank's Quarterly Review and in *A Random Walk Down Wall St*, the latest edition of Professor Burton Malkiel's indispensable guide to financial theory in plain English – has come to Beta's rescue.

Since the 1950s, academics have put statistical flesh on the long-held belief that the return on an investment reflects its inherent riskiness.

Returns on US financial assets



Source: Jagannathan and McGrattan

Total return in local currency to 18/1/96

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.07	0.08	0.19	0.13
Month	0.49	0.04	0.34	0.43	0.88	0.55
Year	7.38	2.50	5.81	6.90	10.50	7.81
Bonds 3-5 year						
Week	0.84	0.07	0.67	1.39	1.91	1.24
Month	1.25	-0.94	2.03	2.63	4.50	1.47
Year	15.67	11.48	16.63	16.38	20.62	15.83
Bonds 7-10 year						
Week	1.57	0.29	1.17	1.93	2.75	1.820
Month	1.58	-1.16	2.86	3.46	6.86	2.31
Year	21.85	16.65	20.35	20.71	26.22	19.08
Equities						
Week	1.0	-0.7	2.1	3.2	2.8	2.4
Month	0.6	3.5	5.4	8.0	4.1	4.3
Year	32.2	7.8	15.3	10.2	-7.4	26.5

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Excel Index Unit.
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Though this might appear a truism, its sheer scale still has the power to surprise. As the chart shows, using US data, small stocks have done much better than large ones both over the whole period 1926-91 and over most of the sub-periods. The chance of a disappointment in any one year is, however, much higher for the small-stock investor than for a big-company one.

The Capital Asset Pricing Model, the theory which gave rise to Beta, peered more closely at what exactly the riskiness was that investors were being asked to assume for their higher reward.

And the academic's statistical research showed that what mattered was not a company's total risk but that portion inherent in its relationship with all the other companies making up the stock market.

A company was expected to perform exactly in line with the market – a stock with a Beta of one, in the jargon – had a low risk in investors' eyes and would therefore be likely to generate only a low return. Similarly, a stock with a high Beta would be relatively risky and would require a higher return to compensate.

Through the 1970s and 1980s, statistical studies seemed to show that Beta "worked".

In the early 1990s, however, a new wave of academic studies has suggested that a stock's Beta may not, after all, provide much explanatory help. One such study argued that a company's size and price to book ratio – the relationship between its book value per share and the price the stock market puts on those assets – had a closer link with subsequent performance than Beta.

In general, the study said, small stocks outperformed larger ones, and stocks where the market initially set a low value on each dollar of assets outperformed thosevalued more highly. The latest thinking restores some faith in Beta, but does so in a way which restricts its practical usefulness. In measuring Beta, what matters is a stock's relationship not just to other financial assets (such as the rest of the securities markets) but also to other potential homes for funds, such as "human capital" or self-improvement. Adjusted this way, Beta is a better predictor of performance than firm size or price to book.

A second conclusion of the latest research is that though the theory works in the long run, it may not hold for any individual period of time, when other factors may temporarily predominate.

All this greatly hampers the use of Beta as a practical investment management tool. But one interesting conclusion emerges even from the hostile research: in a bear market high-Beta stocks do indeed justify their risky status, by falling more than low-Beta ones. In bull markets, like the present, that simple truth tends to be neglected, to be rediscovered painfully each time.

The CAPM Debate by Ravi Jagannathan and Ellen R. McGrattan in Federal Reserve Bank of Minneapolis Quarterly Revue Fall 1995.

A Random Walk Down Wall St. by Burton G. Malkiel. W.W. Norton New York and London.

COMMODITIES Richard Mooney

Coffee strategy under debate

Coffee producing countries, concerned at the recent slide in world prices, will consider action to buoy the market at a meeting in London this week.

Representatives of members of the Association of Coffee Producing Countries are in London for the 5-day producer/consumer International Coffee Organisation meeting that starts today.

They will hold their own meeting tomorrow to debate the temporary suspension of export registrations, along with 1996-97 production management and new pricing mechanisms.

"We are tired of the wild price fluctuations on world markets and the way speculators move in and out of it," one producer representative told the Reuters news agency last week. "At the ACPC meeting we will begin debating a series of new initiatives which aim to give us more control over prices," said another.

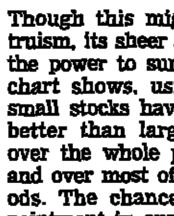
Prices quadrupled in 1994 when frost then drought hit Brazilian growing areas. They are now languishing again, however, with the New York Arabica near-month futures price just above 100 cents a pound, despite an ACPC programme designed to curb supply.

Producers say ACPC talks will focus on new initiatives and how, if implemented, they would fit in with the current bid to restrict world exports to 60.4m bags (60kg each) in the year to June. "We will propose that export registrations be closed on a short-term basis when prices of arabica dip below 120.00 cents a pound and robusta prices dip below 110.00 cents," said one delegate.

● Other events this week include the publication of the International Primary Aluminium Institute's production data for November, and a 3-day confectionery industry event in Cologne entitled "How 'Sweet' is the Future?". Organised by the International Office of Cocoa, Chocolate and Sugar Confectionery, the event will give a global view of the opportunities and challenges facing the industry as it moves into the 21st century.

Economics Notebook

Stabilising Russia



Less than two weeks ago, Russian deputy prime minister Anatoly Chubais dropped in on economists at the London School of Economics to reassure them that the economic stabilisation programme remained on track. The government's poor showing in last month's parliamentary elections had forced some minor cabinet changes. But, as far as Mr Chubais was concerned, both he and the anti-inflation policies he supported were there for the duration.

Six days later he was unceremoniously sacked by President Boris Yeltsin. Russia-watchers are left wondering whether the minister's faith in the stabilisation programme was equally misplaced.

Certainly, the remarks of Mr Alexander Livshits – the President's chief economic adviser – on the day Mr Chubais was sacked were not encouraging. "We cannot eternally conduct the policy of financial stabilisation", he said. "It must come to an end and then the policies of economic growth can begin."

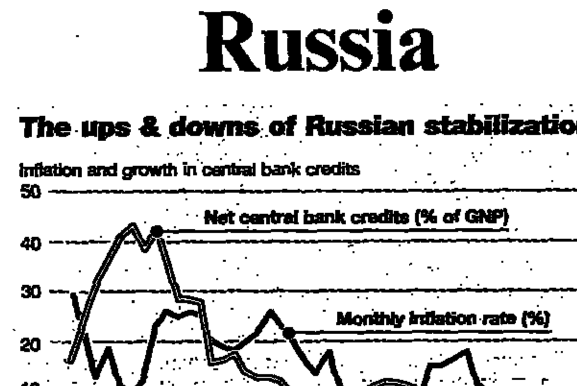
His words will have struck a chord with the average Russian, whose real wages are now 15 per cent lower than they were in January 1992, the start of the first serious stabilisation effort. But, as the chart shows, anti-inflation policies have only been "eternal" because they have repeatedly been abandoned just as they were beginning to bear fruit.

Arguably, the Russian economy is now at just such a turning point. Sticking to the tough monetary and fiscal targets agreed with the International Monetary Fund last spring has reduced inflation to a monthly rate of 3.2 per cent.

With Mr Chubais out of the government and a Presidential election just five months away, observers are expecting a loosening of policy as Mr Yeltsin tries to inject a "feel-good" factor into the campaign. On balance, however, most do not expect another full-scale reversal of economic stabilisation.

The ups & downs of Russian stabilization

Inflation and growth in central bank credits



Source: P Boone, 1996

This is because there are several checks on inflationary spending which were previously lacking.

First is the existence of an approved budget for 1996, which was passed last month by both the Duma and Federation Council. This was the first time in the history of independent Russia that a budget has been enacted before the start of the financial year.

It limits this year's budget deficit to R88.6 trillion, or 3.85 per cent of forecast GDP.

In contrast to previous years, the President is now legally obliged to to authorise any additional spending. Even more important, the Central Bank is no longer permitted to print money to pay for it. The government will instead have to borrow the money on the fast-developing treasury bond market. This kind of extra spending would be far less inflationary than the pure monetary financing used in past public spending sprees.

The chances are that none of these formal constraints would be sufficient to prevent a determined President from resorting to the printing press. But a recent paper by Mr Peter Boone at LSE brings out a deeper reason for thinking a reversal less likely – that it no longer pays.

Mr Boone argues that Russia did not stabilise its economy over the 1992-4 period because many officials and key interest groups did extremely well out of the economic chaos. Russia differed from other ex-communist countries in the sheer amount of wealth and income that was to be redistributed after the breakdown of the old system. As long as this was up for grabs, the goal of low inflation took second place to rent-seeking and corruption.

"Seigniorage", the revenues the government implicitly earns when it spends money that cost it almost nothing to print, provides the clearest example of Mr Boone's argument. In the middle of 1992, as the graph shows, net credit issues by the central bank were running at over 40 per cent of GDP.

In a normally functioning economy, printing money on a fraction of this scale would have spelt instantaneous hyperinflation, so that printing the money would rapidly become a self-defeating exercise. In 1992, however, the inflexibility of the old Russian financial system and the fact that people were not expecting high inflation gave the government an astounding free lunch.

Over the course of the year, central bank and ministry officials were able to distribute "free" money to public enterprises and others to the tune of nearly one third of GDP.

Since 1992, improvements in payment systems and a collapse in confidence in the rouble have steadily put paid to this form of government largesse. People found ways to avoid holding roubles, by using foreign currencies instead, so that credit emissions fed more rapidly into higher prices. The fact that it could no longer print money with impunity was finally brought home to the government in 1994, when a relaxation of credit policy in the summer triggered a 27 per cent rouble collapse a few months later.

Of course, the discovery that overspending no longer pays is no guarantee that it won't take place. History is full of examples of governments pursuing self-defeating and economically disastrous policies to win elections. The point is, rather, that, in the early years of Russian reform, the risks involved in pursuing irresponsible economic policy were unusually low, while the gains, for those in the right place in the right time, were enormous. Precisely the reverse is true today.

* *"The ups and downs of Russian economic reforms", CEP working paper (forthcoming).*

Stephanie Flanders

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 19 1996								THURSDAY JANUARY 18 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (61)	189.85	-0.1	186.33	126.40	145.98	171.67	1.0	3.90	191.14	186.20	127.22	146.03	171.93	198.40	157.95	168.26
Austria (26)	184.01	5.4	180.60	122.51	141.49	141.32	8.9	1.53	180.99	176.32	120.47	138.28	138.11	199.28	167.48	176.65
Belgium (34)	214.68	2.6	210.70	142.93	165.07	160.78	5.9	3.25	213.42	207.91	142.05	163.06	158.97	215.22	168.86	168.03
Brazil (28)	155.88	13.0	152.99	103.78	119.86	279.04	13.1	1.58	153.30	149.35	102.04	117.13	274.37	160.23	88.06	145.33
Canada (101)	151.20	1.9	148.39	100.66	116.26	149.38	1.9	2.50	150.67	146.79	100.29	115.12	148.69	153.19	121.81	128.18
Denmark (33)	298.79	3.5	293.25	198.93	229.74	232.46	6.8	1.41	300.24	292.49	199.84	229.39	232.22	302.74	246.19	250.72
Finland (24)	179.26	-4.2	175.94	119.35	137.84	168.91	-0.9	1.88	177.63	173.05	118.24	135.72	166.65	276.11	171.18	190.23
France (99)	183.11	2.1	179.71	121.91	140.79	145.00	5.3	3.01	183.19	178.47	121.94	139.98	144.49	191.17	157.79	161.23
Germany (60)	167.79	2.5	164.68	111.71	129.01	129.01	5.9	1.65	167.63	163.31	111.58	128.07	128.07	169.49	139.77	143.16
Hong Kong (59)	417.35	7.7	409.62	277.86	320.91	414.25	7.6	3.46	409.29	398.73	272.43	312.70	408.24	417.35	277.40	294.97
Ireland (16)	258.06	1.0	253.28	171.81	198.42	231.99	3.3	3.31	260.46	253.75	173.37	199.00	232.57	262.70	204.97	207.43
Italy (59)	77.04	4.5	75.61	51.29	59.24	91.19	4.4	1.61	74.95	73.02	49.89	57.26	88.49	82.71	65.45	79.67
Japan (482)	152.11	-1.8	149.29	101.27	116.96	101.27	0.2	0.75	152.45	148.52	101.48	116.48	101.48	164.82	138.95	149.19
Malaysia (108)	517.38	6.7	507.79	344.46	397.82	508.31	7.2	1.83	510.14	496.98	339.55	389.76	501.59	561.96	398.16	434.06
Mexico (18)	1197.43	15.6	1175.24	797.21	920.72	9714.31	11.3	1.43	1162.64	1132.64	773.87	888.28	9514.69	1237.14	647.81	1127.14
Netherland (19)	274.55	0.7	269.46	182.78	211.10	207.39	3.9	3.15	273.64	266.58	182.14	209.07	205.56	280.49	217.69	217.89
New Zealand (14)	77.61	-2.8	76.17	51.67	59.68	61.98	-4.2	4.68	76.93	74.94	51.20	58.77	61.66	85.49	71.22	74.09
Norway (33)	230.30	-0.4	226.03	153.33	177.08	202.39	2.0	2.07	231.40	225.43	154.02	176.79	202.38	243.79	202.76	208.83
Singapore (44)	429.95	5.6	421.99	286.25	330.60	281.75	6.1	1.43	425.98	414.97	283.52	325.44	278.74	430.33	313.94	341.04
South Africa (45)	425.75	10.5	417.86	283.45	327.36	339.26	10.5	3.47	426.20	415.21	283.68	325.63	339.38	429.05	281.08	301.79
Spain (37)	165.86	0.4	162.79	110.43	127.54	156.53	3.1	3.90	166.23	161.95	110.65	127.01	156.18	168.91	124.10	128.93
Sweden (47)	305.27	-2.2	299.61	203.24	234.72	303.80	-0.8	1.39	305.97	298.08	203.66	233.77	303.45	324.31	232.23	238.81
Switzerland (40)	225.71	-4.3	221.53	150.27	173.56	167.01	-0.8	1.59	227.10	221.24	151.16	173.51	167.12	238.55	162.35	165.12
Thailand (46)	184.28	9.5	180.87	122.69	141.70	180.66	10.0	2.26	180.95	176.28	120.44	138.25	177.61	185.37	130.15	144.55
United Kingdom (206)	227.59	-1.3	223.37	151.52	174.99	223.37	1.5	4.16	229.16	223.25	152.53	175.08	223.25	232.23	191.53	193.20
USA (632)	249.30	-0.8	244.68	165.98	191.69	249.30	-0.8	2.28	247.76	241.37	164.92	189.30	247.76	253.50	190.22	191.07
Americas (779)	227.94	-0.5	223.72	151.76	175.27	191.54	-0.5	2.27	226.49	220.65	150.76	173.05	190.33	231.16	175.22	178.09
Europe (733)	200.76	-0.1	197.04	133.66	154.36	174.67	2.8	3.01	201.05	195.87	133.82	153.61	173.91	204.32	167.26	168.69
Nordic (137)	272.32	-1.3	267.27	181.30	209.39	235.68	0.8	1.67	272.75	265.72	181.55	208.39	235.07	295.02	222.22	228.07
Pacific Basin (834)	164.18	-0.6	161.14	109.31	126.24	112.64	1.1	1.18	164.17	159.94	109.28	125.43	112.59	171.87	145.93	155.76
Euro-Pacific (1567)	179.32	-0.4	175.99	119.38	137.88	136.18	1.9	2.03	179.44	174.81	119.43	137.09	135.87	183.39	154.73	161.05
North America (733)	243.21	-0.7	238.70	161.92	187.01	242.56	-0.7	2.28	241.73	235.50	160.90	184.69	241.08	246.93	186.14	187.04
Europe Ex. UK (527)	181.59	0.6	178.22	120.90	139.63	147.63	3.6	2.37	181.31	176.63	120.68	138.52	146.67	184.61	149.99	151.71
Pacific Ex. Japan (352)	277.34	4.8	272.20	184.64	213.25	245.30	5.2	3.01	274.55	267.47	182.75	209.76	242.57	278.83	211.19	222.32
World Ex. US (1759)	181.03	0.1	177.68	120.53	139.20	140.39	2.2	2.07	181.08	176.41	120.53	138.35	140.04	184.71	155.42	161.80
World Ex. UK (2185)	199.22	-0.2	195.53	132.69	153.18	166.74	0.9	1.95	198.55	193.43	132.16	151.70	166.01	202.03	163.46	168.04
World Ex. Japan (1909)	229.59	0.2	225.33	152.85	176.53	216.67	1.2	2.59	228.70	222.80	152.22	174.73	215.38	232.30	181.80	188.28
The World Index (2391)	201.73	-0.3	197.99	134.30	155.11	171.75	1.0	2.16	201.24	196.05	133.95	153.76	171.06	204.65	165.92	170.28

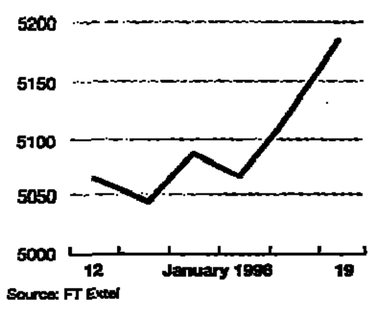
Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 160.44 (US $ Index), 164.07 (Pound Sterling) and 148.94 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 19/1/96: Deletions: Bank South Corp (USA) and CCH Inc (USA)

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Focus on politics and profit reports

Dow Jones Industrial Average



Source: FT Extel

Politics and profits will be the dominant factors on the US equity market this week.

Although the government has now begun to put out official economic data, many investors are more likely to concern themselves with earnings reports due to be released in coming weeks and the State of the Union Address to be delivered by President Bill Clinton on Tuesday.

Mr Clinton's address will be looked to this year for signs of whether the Democratic president will be able to strike a deal with Republicans in Congress to balance the federal budget.

More important, however, will be the next round of fourth-quarter earnings reports.

Stocks had fallen in the first few weeks of this year as investors grew concerned that earnings reports would hold mostly negative surprises, but the market gathered strength last week as that proved not to be the case.

This week, investors will get a chance to look at the results from industry leaders such as Exxon, UAL – the parent of United Airlines – Johnson & Johnson, Du Pont and Coca-Cola.

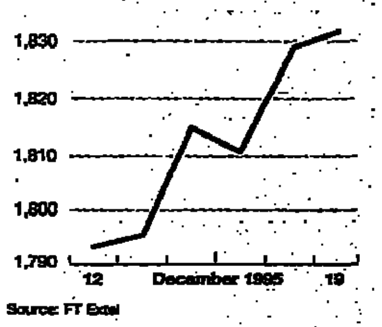
In terms of data, the most important releases of the week will probably be the numbers on December industrial production and capacity utilisation set to be released on Wednesday.

Economists are looking for a 0.3 per cent rise in industrial production and expect capacity utilisation to have remained steady at 83.1 per cent.

LONDON — Steve Thompson

Looking to Wall Street for inspiration

FT-SE-A All-Share index



Source: FT Extel

After last week's fireworks, which had the FT-SE 100 leaping about 90 points after the cut in domestic interest rates, it might be asking too much to expect the UK equity market to produce another supercharged performance. A thin list of economic news and company statements means it will have to look elsewhere for inspiration, possibly to a Wall Street beginning to display signals that another cut in US interest rates may come with the next FOMC meeting, scheduled for January 30.

The market's most eagerly awaited news will be the result of the bid battle between Granada and Forte. Dealers say a Granada victory could be the catalyst for a series of contested bids, indicating the institutions' appetite for change.

Worries about a snap general election might also hurry plans for further bids. Unichem's agreed offer for Lloyds Chemist last week might be the first of many in coming months.

Investors will have noted, however, that the market was unhappy with suggestions that the interest rate cut was politically motivated and even more concerned by reports that the Conservative party hierarchy might be assembling a firing squad for Mr Major.

Nevertheless, market strategists insist the chancellor was right not to lift interest rates early last year, when the Bank of England was calling for such a move, and will be proved right in his latest decision.

International offerings

Indonesia undeterred by Telkom issue experience

Mention last November's initial public offering of PT Telkom, the domestic telecoms company, to Indonesian government officials and you are met with awkward, if not embarrassed, smiles.

At the last minute, the government was forced to halve the offer to $1.59bn and slash the price of the shares to below their initial range after US demand for the shares failed to materialise.

But the government has not let the affair sap its enthusiasm for further state sell-offs. Krakatau Steel, Bank Negara Indonesia, the toll-road operator Jasa Marga and the state electricity company PLN have been flagged as next in line.

"Of course we learned some lessons [from Telkom] but it's better not to dwell on what went on," says Mr Bacelius Ruru, director general of state-owned enterprises.

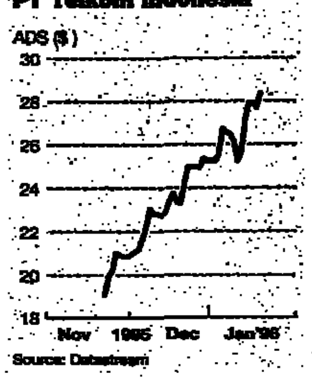
Mr Ruru, together with the minister of finance, Mr Mar'ie Muhammad, plays a pivotal role in implementing Indonesia's privatisation policy. "What is important for us is to look to the future," he says.

Asked what Telkom's lessons are, Mr Ruru is suitably vague. "There might be some adjustments [to the privatisation programme] but these adjustments should be tailored to the situation, the conditions and the terms of the capital market and the needs of the company."

Behind the scenes, however, there was some consternation among Indonesian officials, who said Telkom's four global underwriters – Merrill Lynch, Goldman Sachs, SBC Warburg and Lehman Brothers – should have foreseen that the market could not have absorbed an offer of Telkom's size. The general consensus was that because of the number of underwriters involved there was no-one to take the lead.

Mr Ruru, a former chairman of Indonesia's capital market supervisory board who assumed charge of state-owned enterprises in a sudden post-Telkom rejig at the finance ministry, says there are no dates set for future privatisations. Nevertheless, earlier government statements indicated that the intention was to sell off parts of Jasa Marga, BNI, PLN and Krakatau Steel as soon as possible.

PT Telkom Indonesia



Source: Datastream

Most of these privatisations may be further down the road than the government would like to admit. PLN is still in the early phases of restructuring; it aims to spin off a number of units which will operate power stations in various parts of the country. It is these units which are likely to be privatised while PLN's core retains control over power distribution.

Jasa Marga, with Peregrine Securities acting as financial adviser, is still in the process of selecting foreign and local partners to build hundreds of kilometres of new toll roads throughout the country.

Meanwhile, although BNI's assets and capital levels compare favourably with those of its peers, the state banking sector is still recovering from the bad debt scandals of recent years.

There is also talk of a secondary offering for Telkom – officials will not comment on this – which brokers say would be a logical step. Telkom shares have done well, vindicating the decision to cut back the size and price of the offer.

A secondary offering would allow the government to capitalise on the share price gains and fulfil its initial plan of selling off 27.5 per cent of the company. Only 19 per cent of Telkom was listed in November.

Krakatau Steel has appointed Price Waterhouse as its auditor and is looking for a financial adviser – brokers believe the issue is likely to go in October this year.

The market has been starved of new issues since the Telkom offer, which goes some way to explain the rally in Indonesian share prices since the beginning of this year. But a flood of new offerings is expected in the second and third quarters.

When it comes to timing the privatisations, the government "is competing not so much against itself as against the rest of the market", says one research analyst.

Indications are that Krakatau Steel, still restructuring as Indonesia gradually deregulates steel imports, will be sold off in a dual international and domestic offer. It may well be the only one of the four planned privatisations to do so, despite the fact that the government needs foreign capital raised from its privatisations to pay off its foreign debt.

Following Telkom, "the government has recoiled a bit from efforts to float all the big companies offshore", says one foreign broker. Mr Ruru indicated that BNI and Jasa Marga are both likely to be domestic offerings although he stresses "no final decision has been taken yet".

Mr Ruru says the structure of an international IPO is likely to remain one where, as was the case of Indosat and the original intention with Telkom, the government's share in the company was sold on the international market while new shares were sold in the domestic tranche. However, he does not rule out alternatives.

As the dust settles over the Telkom issue, one factor will remain constant in Indonesia's privatisation process; the role of President Suharto.

As was the case with Telkom, Indosat, the tin miner Tambang Timah and the cement manufacturer Semen Gresik, "any decision to go along [with a privatisation] will originate from the government and in Indonesia the government is the president", says a finance ministry official.

Manuela Saragosa

OTHER MARKETS

PARIS

There was relief last Thursday when the Bank of France trimmed interest rates, especially as the equity market had been rising over the previous sessions in anticipation of such a move, *writes John Pitt*.

However, there was less satisfactory news on the corporate earnings front, with Lyonnaise des Eaux, for example, forecasting a disappointing 1995.

Furthermore, French analysts lowered their forecasts for 1995 and 1996 corporate earnings growth. Earnings forecasts for 1995 were revised downwards by 5.8 per cent on average for a sample of 150 major companies, and by 2.6 per cent for CAC-40 stocks. For 1996, earnings were revised down by 3.3 per cent and 2.1 per cent respectively.

Analysts were particularly pessimistic about those sectors linked to consumer spending, such as cars, consumer goods and retailing.

The results season begins this week, with figures from TF1, the television group, and Saint-Gobain, among others. Analysts expect an increase in TF1's net profit of about 15 per cent. Some believe there is little risk of the company losing its right to broadcast, which is under re-negotiation.

FRANKFURT

After the market's foray into record territory last week, analysts are becoming cautious about where share prices are now heading. UBS says that although repo rates should continue to fall, the upside for the stock market is now limited in the short term as investors will finally start to become worried about the fundamental outlook for company earnings, which continue to deteriorate.

Tomorrow brings first-quarter earnings from Siemens. Robert Fleming Securities says it is well known that the company is expecting to deliver earnings growth of between 20 per cent and 25 per cent in the current year. It is also generally accepted that this expectation is realistic, since it is virtually underwritten by a reduction in the costs which Siemens has been taking against the P&L account for restructuring.

There is also a general expectation that Siemens will raise its dividend at the end of the year for the first time since 1990. The big question, however, is whether this is already in the price. On the face of it, says Flemings, with the share price at the top end of its range, much has been discounted. However, it believes that there is still some way to go.

ZURICH

The market looks set for further consolidation this week with the very sluggish bond market providing no impetus at all. Pharmaceuticals could remain in focus after last week's mildly negative sales figures from Roche, which were counterbalanced by a more upbeat response to the Sandoz announcement.

Nestlé, whose shares were sharp under-performers last year, will also come under scrutiny today with some details of its 1995 results.

Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich expects the company to report flat to slightly negative sales figures for the second successive year.

He expects volumes, which have been on an increasing trend for two years, to rise by more than 3 per cent for 1995, after 2.3 per cent in the previous year, but with a 9–11 per cent negative currency effect reducing the growth in foreign currency terms.

MILAN

The expected reappointment of Mr Lamberto Dini as prime minister should be good news for equities, which responded to the prospect by bursting higher on Thursday and Friday of last week. Indeed, the market's subdued reaction to Mr Dini's resignation was largely the result of expectations that he would be back. The Comit regained the 600 point level on Friday in a somewhat premature approval of his return.

Many analysts are, however, cautious about the short-term outlook, noting that the country could face a bumpy ride as Mr Dini walks the tightrope of putting in place a new cabinet.

Not so Mr Andrea Azzimondi at CS First Boston, who has a mid-1996 target for the Comit of 700 points. He points to slowing inflation opening the way to a 50 to 100 basis points cut in interest rates, which would give a particular boost to a market more heavily biased towards financials than other European bourses.

Mr Azzimondi doubts that there are negative surprises on the horizon from corporate earnings, while a more stable political outlook caps the scenario.

HONG KONG

The market is forecast to continue pushing upwards this week, although the strong gains racked up since the start of this year mean stocks will be vulnerable to profit-taking, *writes Louise Lucas*.

On Friday the Hang Seng Index closed at a 23-month high, fuelled by gains on Wall Street and interest rate cuts in Europe. The key factor underpinning the latest rally – liquidity – was strong all week, and this flow of overseas funds will keep prices buoyed.

Further evidence of the rally has come in the form of covered warrants, issues of which have been a daily occurrence and have helped boost the price of targeted stocks.

TOKYO

Caution over banking issues are heightening as the parliamentary talks over the liquidation of bad loans at the country's housing loan companies begins this week, *writes Emiko Terazono*.

Banks which lent heavily to the companies are likely to meet selling if the wrangling drags on.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / **Tony Walker**

Pick-up in Shanghai after shaky start

1995 was a year Shanghai-based western brokers would like to forget. But after a shaky start to the new year most are forecasting an improvement in the second half after disappointment recedes over a rash of poor company results for 1995 to be released by early April.

Mr John Crossman, the chief representative in Shanghai of Jardine Fleming, predicts that end-of-year results will be "miserable" for many of the dozen or so industrial companies among 37 B share listings – those reserved for foreign investors.

But he believes that once the expected "fairly dismal" reporting season is out of the way, and assuming the Hong Kong market continues to strengthen, Shanghai B shares will once again attract support from foreign institutions which have stayed on the sidelines for much of the past year and a half.

"We see the market picking up in mid-year once all the bad news is behind us", he said. "We are also looking to the government to loosen credit and this should help ease the triangular debt problem."

Beijing's success in bringing down inflation to 15 per cent at the end of 1995 from more than 20 per cent a year earlier has set the stage for the possible selective relaxation of tight credit.

One of the main drags on earnings of many Chinese companies caught in the credit squeeze is their inability to pay each other for goods and services, leading in turn to a huge backlog of accounts receivable.

The disappointing performance of B shares listed on China's two exchanges, Shanghai and Shenzen, has seen Shanghai's B index slump from a record high of 105.78 on December 31, 1993 to finish this week around 51.39, a drop of more than 50 per cent over the past 24-months. It's high for 1995 was 63.81 in August. Shenzen has followed a similar pattern.

Once the expected "fairly dismal" reporting season is out of the way, and assuming the Hong Kong market continues to strengthen, Shanghai B shares will once again attract support from foreign institutions.

Investors in the rash of specialised funds floated during the initial burst of enthusiasm for China stocks have experienced disappointing returns, to say the least; but brokers and fund managers are convinced that B share investments will reward the patient.

Mr Richard Graham, head of ING Barings' Shanghai office, says that 1996 is "very unlikely to be worse than 1995". Market turnover was just one-third that of 1994.

But Mr Graham said sentiment appeared to be shifting. He cited as an example the performance of Barings' own Greater China Fund Inc. listed in New York and trading at an 11 per cent premium to net asset value.

"This implies that investors have seen the bottom of the cycle and are becoming more optimistic," he says. "It's like the earliest signs of spring. You may be seeing a few snowbells and anenomes creeping through in the garden."

American institutions are said to be buying selectively in anticipation of a stronger market in the second half of the year with the continued improvement of China's economy.

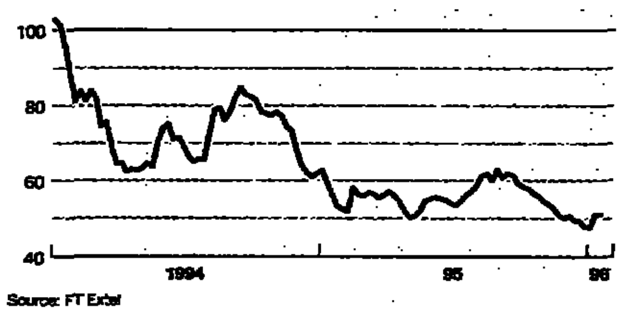
The Japanese, on the other hand, are staying out of the market for the time being after a burst of buying in 1994. Japanese mutual funds, however, are continuing to study the situation closely, especially consumer products companies, according to a Japanese broker.

In recognition of this, Jardine Fleming has added a Japanese speaker to its staff.

"The Japanese will in the long-term again come to the market", said the broker. "While they have had their fingers burned, they still see huge potential in China equity plays."

China

Shanghai B Index



Source: FT Extel

Brokers, in their cautiously optimistic assessments for 1996, are also relying on an anticipated "knock on" effect from a strengthening Hong Kong market.

Investors who have done well with China-related stocks in Hong Kong may decide at some point to take profits and reinvest in China.

But weighing heavily on the more optimistic forecasts is the fact that the B share market lacks liquidity, and new listings are proceeding at a snail's pace.

Last year, there were just two new counters added to the market, and this year perhaps three or four are under serious preparation.

Brokers are hoping that Shenergy, the local power sector investor, will issue B shares in the first half of the year, and thus give a boost to the Shanghai market like Guangdong Electric Power did when it was listed in Shenzen last year.

Shenergy is already the biggest A share (A shares are reserved for local investors) company on the Shanghai exchange by market capitalisation.

Mr Crossman of Jardine Fleming said foreign investors would be attracted to new issues as long they are priced attractively.

One of the difficulties encountered by brokers is to persuade Chinese companies in the present climate to be realistic about price earnings multiples.

"Investors will wear PE's of 5-7 times these days rather than 8-10 as was the case in 1993 and 1994", he said.

"The problem, however, is that the Chinese value companies by assets and foreigners lue them by earnings potential."

Asked to identify expected better performing sectors this year, Mr Crossman nominated textiles and petrochemicals.

Brokers are bearish about real estate stocks because of concerns about a looming oversupply of office space, especially in the Pudong economic zone where a building boom is in process.

As the new year gets underway China's markets are still labouring under the burden of an inadequate regulatory system, and plagued by arbitrary intervention by the authorities in Beijing.

This was the gist of a critical World Bank report which found the development of China's capital markets was being hampered by government intervention.

"Capital market development in China is still embedded within the framework of an economy in transition, where many of the features of the former planning system remain", the report said.

It warned that the "novelty value" of China investments had passed with highly illiquid hard currency B shares a special source of concern.

News round-up

■ Strategy

The failure of Indonesia's PT Telkom's flotation last year resulted mainly from the saturation of Indonesian stock in the emerging market portfolios of UK institutions rather than from a saturation in telecoms stocks, a survey commissioned by Burson-Marsteller, the PR agency, shows, *writes Antonia Sharpe*.

The survey also indicated that UK institutions pay more attention to the quality of the market itself than the industry sector when deciding in which emerging market to invest.

On individual markets, the fund managers view China and India with caution but said that they intended to increase their exposure to eastern Europe.

Taiwan and Vietnam were seen as sound investment opportunities while in Latin America, Brazil was the favourite market.

The survey was carried out between September and November 1995 and the sample consisted of fund managers responsible for emerging markets at 58 UK institutions, which control 95 per cent of all UK institutional investment in emerging markets, currently £182bn.

■ Turkey

Plans to set up two regional stock exchanges are understood to be under consideration by the capital markets board. The markets would be located in Denizli and Gaziantep.

The Istanbul stock exchange was launched in 1986 and its market capitalisation has soared to $22.6bn by November 1995, with 203 traded companies.

■ Czech Republic

A Czech finance ministry commission has recommended that the ministry grant a licence to operate the country's third stock exchange to a group called RTP, *Reuter reports*.

If granted the bourse would be the third organised exchange in the country, after the Prague stock exchange and the computerised over-the-counter RM-System.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

CURRENCY MARKETS — Gillian Tett

Dollar stays focus of market attention

By Gillian Tett

With finance ministers from the Group of Seven countries having met in Paris this weekend, the main focus for the currency markets this week will be the dollar's movements against the yen and D-Mark.

The G7 welcomed the rise in the dollar in recent months and hoped it would continue – especially against the D-mark.

This would delight German and Japanese policy makers, whose exporters have been complaining of dwindling competitiveness.

However, opinions are split in the markets about the potential for further dollar strengthening - not least because of the ongoing uncertainties about the path of economic growth.

If, as some economists suspect, European interest rates fall further after this weekend's meeting, then there are hopes that the D-Mark could soften.

In Europe there are few significant currency-sensitive releases expected. But in the UK, the release of provisional estimates of gross domestic product for the fourth quarter of 1995 could have some impact on the British currency.

Nevertheless, the most significant factor for sterling is likely to be the political situation, with markets now watching like hawks for any further signs of looming instability.

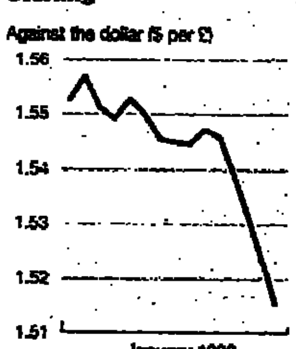
Although the slowdown in European growth has been the main focus of attention recently, an edge of uncertainty still hangs over the US economy. Many traders believe that the US offers the healthiest growth prospect at present; however, there has a been a paucity of data on the US in recent weeks, because of the government shut down.

Against this background, the release of US capacity utilisation figures on Wednesday could have some implication for the dollar, together with President Clinton's State of the Nation speech on Tuesday.

Meanwhile, the release of Japanese data is expected to show that the Japanese economy is improving slightly.

Sterling

Against the dollar ($ per £)



Source: FT Extel

ING Baring Securities Emerging Markets Indices

Index	19/1/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (395)	156.58	+0.83	+0.53	+13.10	+9.13	+9.02	+6.11
Latin America							
Argentina (22)	97.40	+0.61	+0.63	+10.71	+12.35	+4.63	+4.99
Brazil (23)	206.04	+4.86	+2.42	+29.16	+16.48	+19.94	+10.72
Chile (16)	192.80	-2.02	-1.03	-4.07	-2.07	-2.86	-1.46
Colombia (14)	155.54	-9.56	-5.79	-5.48	-3.40	-8.70	-5.30
Mexico (23)	80.07	-1.27	-1.57	+10.24	+14.66	+6.47	+8.79
Peru(14)	1,125.61	+51.27	+4.77	+109.58	+10.79	+56.66	+5.30
Latin America (112)	131.55	+0.76	+0.58	+13.86	+11.79	+8.40	+6.83
Europe							
Greece (18)	105.29	+5.97	+6.01	+10.01	+10.50	+7.32	+7.47
Portugal (20)	123.09	+0.71	+0.58	+6.53	+5.60	+6.63	+5.89
Turkey (26)	101.93	+5.71	+5.93	+17.87	+21.26	+19.13	+23.10
South Africa (32)	168.90	+1.94	+1.16	+16.47	+10.80	+15.52	+10.12
Europe (96)	134.06	+2.27	+1.72	+13.27	+10.98	+12.52	+10.30
Asia							
China (24)	47.71	+1.11	+2.38	+8.06	+20.33	+7.38	+18.31
Indonesia (32)	151.70	+3.13	+2.11	+16.59	+12.28	+13.05	+9.42
Korea (23)	126.65	-5.40	-4.09	-11.50	-8.32	-10.25	-7.49
Malaysia (24)	236.19	-1.66	-0.70	+11.84	+5.28	+8.83	+3.88
Pakistan (14)	73.13	+1.07	+1.49	+2.83	+4.03	-0.46	-0.63
Philippines (14)	281.27	+5.52	+2.00	+35.44	+14.42	+22.10	+8.53
Thailand (25)	269.13	-1.83	-0.68	+23.06	+9.37	+17.25	+6.85
Taiwan (31)	127.15	+1.59	+1.27	+0.71	+0.58	-3.87	-2.81
Asia (187)	210.15	-0.21	-0.10	+11.25	+5.66	+7.11	+3.50

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

مكبر من الاصل

WORLD BOND MARKETS: This Week

NEW YORK — Lisa Bransten

The main factors for the bond market this week are familiar enough: the Budget impasse and prospects for a further easing at the next FOMC meeting later this month.

The two are not unconnected. On the one hand, the practical effect of the budget ceiling has been to cramp government spending, thus limiting bond issuance. This might point to a further loosening of monetary policy.

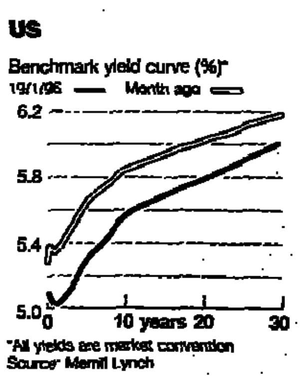
On the other hand, in the absence of a budget agreement, tax cuts would start to kick in, without spending cuts having been agreed. Thus, in the slightly longer run, there might be a case for monetary tightness to offset fiscal laxity.

That apart, the market plainly feels the economic fundamentals are moving its way: hence the drop back below 6 per cent in the long bond yield last week.

Even the weather is helping. The number of companies blaming the recent blizzard for disappointing results is rising; and, excuses aside, it does seem that the weather has dented economic activity.

Tomorrow brings personal income and consumption data for October and November, with Salomon expecting the former to slow between the two months and the latter to accelerate. Wednesday brings an expected rise in industrial production and capacity utilisation for December, and a likely further fall in new home sales for November.

US



*All yields are market convention
Source: Merrill Lynch

LONDON — Antonia Sharpe

The gilts market faces two important sets of data this week. The first – preliminary gross domestic product for last year's fourth quarter – is due today. The median forecast is for a 0.4 per cent rise on the quarter for a yearly rise of 1.8 per cent, well below the 2¼ per cent level the government regards as inflationary.

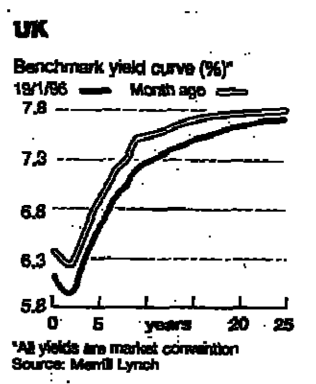
The second, the CBI industrial trends survey for January, due tomorrow, should provide further evidence of weakness in manufacturing.

"If GDP is below ¼ per cent and the CBI survey is weak, gilts should perform well," says Mr Simon Briscoe, UK economist at Nikko. But he does not expect much change in the 10-year yield spread over Germany, which on Friday stood at about 159 basis points.

Mr James Barty, senior UK economist at Deutsche Morgan Grenfell, believes that at current levels the gilts market looks expensive, in view of the political risk and the softness of sterling.

The other main event will be tomorrow's announcement by the Bank of the England of the details of next week's gilts auction. Although the market expects £3bn worth of five-year paper, the Bank could be reluctant to issue another tranche of the current benchmark, the 7 per cent of 2001, as this trades above par. It could therefore auction a five-year issue, with a coupon closer to current five-year yields of 6¾ per cent.

UK



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Andrew Fisher

With the average yield on government bonds at a near 18-year low last week (5.22 per cent against 5.15 per cent in March 1978), the Bundesbank is pleased with the impact of its more relaxed monetary stance at a time of economic stagnation.

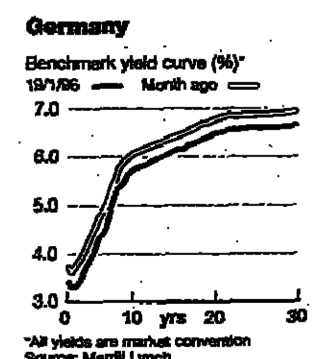
Now, the question is when, and whether, it will cut short-term rates again. Mr Johann Wilhelm Gaddum, deputy president, said it would await January money supply figures to assess the initial effect of discount and Lombard rate cuts last month. He said there was scope for the securities repurchase (repo) rate to fall to 3.25 per cent from last week's 3.65 per cent.

The target for M3 growth is 4 to 7 per cent. Annualised monthly growth rates have been below this recently but six-month rates have been just above 4 per cent.

"Bundesbank policy is certainly in a position, and is ready, to react flexibly if this is necessary to reach its money supply target," said Mr Gaddum. If the trend proved unsatisfactory, the Bundesbank had "potential for action".

Economists increasingly expect further rate cuts. Mr Adolf Rosenstock of IBJ Research said: "The Bundesbank is seriously concerned about real economic growth and, consequently, the forces behind M3." A further rate cut at end-March was now possible.

Germany



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

Low short-term interest rates are likely to support the bond market and yields are expected to move within a tight range this week, despite a range of economic data which is likely to confirm a gradual recovery.

The Bank of Japan's quarterly branch managers' meeting is expected to offer an improved view of regional economies but the underlying tone is expected remain cautious.

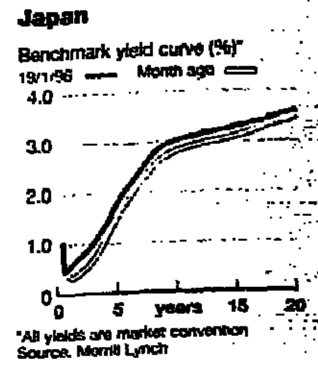
Production rose in October and November, endorsing views that inventory adjustment is proceeding smoothly. "But continued sluggish domestic demand, ongoing difficulties in the financial sector and subdued inflationary pressures suggest no change in the Bank of Japan's policy stance," says DKB International.

Recovery expectations are also likely to be heightened by a rise in the leading and co-incident indicators for November. In October, the co-incident indicator rose to 75, breaching the boom/bust level of 50 for the first time in six months, and economists expect the figure to rise above that level in November also.

Low inflation, on the other hand, is likely to counteract the effects of recovery expectations.

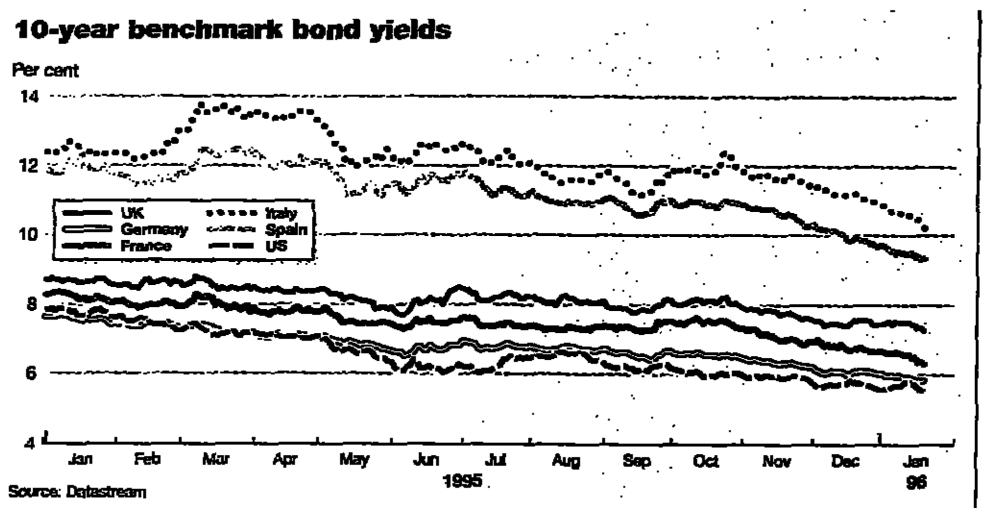
Seasonally adjusted consumer prices for Tokyo in 1995 fell 0.3 per cent, with the core rate excluding fresh food prices falling 0.1 per cent in December.

Japan



*All yields are market convention
Source: Merrill Lynch

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.00	5.60[1]	9.00	6.25[2]
Overnight	5.38	0.38	3.50	4.37	9.81	6.25
Three month	5.10	0.34	3.42	4.36	9.37	6.28
One year	5.00	0.49	3.25	4.39	9.06	5.94
Five year	5.26	1.72	4.49	5.43	9.59	6.78
Ten year	5.53	3.10	5.80	6.25	10.09	7.29

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	121-12	121-16	+0-06	121-28	120-22	399,925	338,563
Jun	120-30	121-02	+0-06	121-13	120-09	3,954	23,140
Sep	120-11	120-17	+0-05	120-26	119-26	48	5,648

Syndicated loans

High bank liquidity keeps the lid on margins

The syndicated loans market has got off to a strong start in the new year, with a flurry of deals launched in the past two weeks. Borrowers from Scandinavia, central Europe and the Mediterranean regions have been particularly active.

"It's busier now than this time last year," said one banker. "Pricings are low, and that's attracting demand for funds," he said.

Moreover, the high levels of liquidity in the banking sector mean that strong demand for loans is keeping interest margins subdued. "While margins may not fall any further, I don't see any reason for them to start rising soon," he said.

Among last week's deals was the launch of a $750m seven-year debt facility for Enso, the Finnish forestry products company, which mandated Union Bank of Switzerland and Merita Bank as arrangers.

The terms remained confidential, but dealers are calling for an interest rate of 22.5 basis points over Libor for the first five years rising to 27.5 points thereafter, with a 5 basis point utilisation fee.

Another Finnish borrower, crude petroleum and natural gas company Neste, launched its $500m seven-year multi-currency revolving credit facility last week. It will pay 17.5 basis points over Libor for the first three years, 20 points in years four and five, and 22.5 points for the remainder. Arrangers are Chemical Bank and Deutsche Bank Luxembourg.

Finnish debt has been seeing strong demand: a loan for Finland's Rautaruukki, arranged by Chemical Bank, Merita Bank and Mitsubishi Bank and signed on January 11, was increased to DM350m, from the DM150m initially sought after heavy oversubscription. The facility carries a margin of 30 basis points over Libor for the first five years, rising to 35 points thereafter.

A FFr3bn five-year revolving credit facility was launched into general syndication for Compagnie Générale des Eaux, the French construction and utilities group. Dealers reported fierce bidding for the mandate, with some banks reportedly offering interest margins as low as 15 basis points over Libor.

In the event, the margin was set at Libor plus 19.5 basis points, with a commitment fee of 9.5 basis points. The deal is being arranged by Union Bank of Switzerland.

Israel Electric Corporation, the state-owned power utility, last week launched a five-year $50m term loan via Euro-Trade Bank, Sumitomo and Union Bank of Israel. The loan, which has a four-year grace period, pays a margin of 50 basis points over Libor.

The Republic of Slovenia launched its long-awaited $60m seven-year term loan via Credit Suisse, Dai-Ichi Kangyo, J.P. Morgan and Sumitomo. Dealers said the strong arranging group could get the deal off the ground in spite of its tight pricing of 40 basis points over Libor during the first four years and 50 points over for the remaining three.

Other central European borrowers rumoured to be planning comebacks include the Czech Republic's Investicni Banka and Komercni Banka. Both came to the market last year and raised eyebrows with their finely priced deals: in October Investicni borrowed $175m of five-year funds at a margin of 25 basis points, rising to 30 points but declining by 5 points if the Czech Republic joined the OECD, which it did at the beginning of 1996. In November, Komercni obtained $150m of three-year funds at 20 basis points over Libor.

The Hellenic Republic is also rumoured to be planning a loan, although after last week's large bond issues in D-Marks and Japanese yen, its return may not be imminent. Dealers said it would want better terms than last year's $600m five-year loan, priced at 80 basis points over Libor, and is looking for less than 70 basis points.

Commercial Bank of Greece is in the market with a $100m facility with a maturity of two years and one day priced at 55 basis points over Libor, which some dealers deemed as aggressive. Bank of New York and Sanwa are joint arrangers.

Recent weeks have also seen the successful completion of several deals: a $310m 18-year facility for Scandinavian Airline Systems, increased from the originally planned $250m; a $500m loan for Glencore, the Swiss trading and industrial group, which was increased from $300m; a $100m loan for Anglovaal, the South African industrial and mining group; and a £60m debut syndicated loan for transportation company Firstbus.

● The Government of Tunisia has raised $200m in a syndicated loan, finance minister Nouri Zorgati announced at a signing ceremony in London. The loan, arranged by Sanwa Bank, Commerzbank and Société Générale, has a five-year maturity and three-year grace period, and was priced at 70 basis points over Libor.

Marking Tunisia's return to the Euroloan market after a four-year absence, the loan is part of the government's attempts to diversify its funding sources. Since international development agencies following the successful completion of a structural adjustment programme, it has been tapping international markets.

After issuing four Samurai bonds last year, it has now moved to the euromarket, Mr Zorgati said the syndicated loan may be followed by a Eurobond issue later this year.

To ensure that the budget deficit does not to exceed its target of 2 per cent of gross domestic product for 1996, Tunisia will seek to borrow a total of $400m on the international capital markets.

The syndicated loan, originally planned to raise $100m, was increased to $200m, leaving another $200m to be borrowed by the end of the year.

Commitment to a strict reform programme has allowed North Africa's smallest country to record average growth of 4.5 per cent in the period from 1992 to 1995 and has raised its international profile.

Last year, Tunisia became the first Arab country to be awarded investment grade credit ratings: BBB from Moody's and BBB- by UK rating agency IBCA. It was also the first country on the southern flank of the Mediterranean to sign an agreement with the European Union to create a free trade zone.

Tunisia has total external debt of $9bn, representing 53 per cent of GDP, while servicing the debt consumes 18 per cent of the country's foreign exchange revenues.

Conner Middelmann and Roula Khalaf

Risk management

Report urges need for 'top down' approach

The management of risks is high on the list of concerns at banks and securities houses over the past 12 months, with worries prompted in part by a series of heavy losses in the derivatives markets.

Today, Coopers & Lybrand, accountants and management consultants, will unveil a new initiative in the area, with the publication of a report outlining a comprehensive framework of risk management principles for financial institutions.

The report, entitled "Generally Accepted Risk Principles" (GARP), lists no fewer than 89 principles, covering risk management strategy, organisation, operation and systems.

In short, the report provides a checklist for the kinds of organisational structures and management processes which banks and securities firms need to put in place in order to manage market, credit and other risks.

The framework "is intended to serve as a benchmark for banks and other major financial institutions active in financial markets and will become a common risk management standard for our industry", said Sir Peter Middleton, chairman of BZW, which led a panel of practitioners and supervisors from both the UK and the US that reviewed the report.

"It is clear from recent events that one of the greatest risks facing financial institutions is the lack of communications and understanding of risk management principles by the board," explained Sir Peter.

"The principles set out in GARP are a way of bridging this gap and shareholders should take note."

The document builds on much of the thinking published by industry groups such as the Basle Committee, the Derivatives Policy Group and the International Organisation of Securities Commissions, but GARP places renewed emphasis on the role and responsibility of the board.

"Risk management needs to be driven from the top down by people charged with overall responsibility for running the business," said Sir Peter.

"Risk management principles must therefore be designed for use in all aspects of the organisation, from the board to operational management, from business strategy and policy to operational procedures."

The report also points out that risks such as legal, operational, personnel and so-called "reputational" risk – which are not so easily quantifiable as market or credit risk – must also be managed in an effective way and should be integrated into the overall risk management mechanism.

"The broad range of GARP means it is a document that deserves serious consideration at the most senior level, and across a range of responsibilities not confined to traditional risk management or internal audit functions," added Sir Peter.

Richard Lapper

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Mori Seiki Co.(a)◊	150	Jan.2000	2.50	100.00	-	-	Yamaichi Intl.(Europe)
Spintab‡	100	Feb.1998	(c)	99.925R	-	-	PaineWebber Intl.
Goldman Sachs Group@‡	300	Feb.2001	(l1)	99.90R	-	-	Goldman Sachs Intl.
Dean Witter Discover & Co.‡	300	Feb.2001	(r)	99.742R	-	-	Merrill Lynch Intl.
Kingdom of Sweden(i)	250	Feb.2001	5.85	100.00R	5.850	+45(5½%-00)	Goldman Sachs Intl.
NationsBank Corp.‡	160	Feb.2003	(u)	100.00	-	-	UBS
Christiania Bank‡	150	Feb.1999	(v)	99.932	-	-	Citibank International
GECC	250	Feb.1998	5.00	100.015R	4.992	-7(WI 2yr)	SBC Warburg
Argentaria Capital Funding	250	Feb.2006	6.375	99.773R	6.406	+74(5⅞%-05)	Salomon Brothers Intl.
GECC	250	Feb.1998	5.00	100.015R	4.992	-7(WI 2yr)	SBC Warburg
Banque Indosuez‡	150	Feb.2001	(z)	99.895R	-	-	BZW/PaineWebber
D-MARKS							
BHF Finance (Neths.)	300	Feb.2004	6.00	101.375	5.780	-	BHF-Bank
BBA CreditanstaIt (Sao Paulo)	150	Feb.1999	8.50	99.75R	8.598	+463(5⅝%-98)	Bqe. Paribas (Deutsch.)
Baden Württemberg L-Fin.	1bn	Jan.2006	6.00	99.485R	6.073	+24(6%-06)	CSFB/Deutsche MG
Nürnberger Hypothekenbank(p)	1bn	Jan.2006	6.00	98.865	6.155	-	BayHypo/BayLB/BayVB
Hellenic Republic	1bn	Feb.2003	6.375	99.75R	6.420	+100(7¼%-03)	Salomon/WestLB
European Investment Bank	1bn	Feb.2001	4.625	99.745R	4.683	+20(5¾%-00)	CSFB/SaLB/UBS/WestLB
BFCE(s)	500	Nov.1999	4.25	99.575R	4.404	+13(7%-99)	Dresdner Bank
DSL Bank(a)	100	Feb.2001	2.375	99.05R	-	-	JP Morgan
Deutsche Finance Neths.(k)	1bn	Feb.2004	5.75	101.94	5.444	-	Deutsche Morgan G'fell
Kommuninvest Sverige	225	Feb.2001	5.00	102.40	4.454	-	DGZ
Bayerische Vereinsbank(p,w)	1.5bn	Jan.2006	6.00	98.97R	6.141	+30(6%-06)	BayVB/Comz/Merr/UBS
City of Vienna	500	Feb.2002	5.125	99.87R	5.151	+20(8¼%-01)	BayerVB/SBC Warburg
Commerzbank O'seas Finance	500	Jan.2002	5.25	101.925	4.872	-	Commerzbank
CS First Boston	200	Feb.2001	5.375	99.97R	5.382	+92(5¾%-00)	CSFB-Effectenbank
Trinkaus & Burkhardt Fin.	100	Feb.2002	5.375	101.80	5.020	-	Trinkaus & Burkhardt
Republic of Turkey	500	Feb.2001	7.50	99.50R	7.824	+310(5¾%-00)	Commerzbank
SWISS FRANCS							
New Japan Radio Co.(b)★◊	100	Feb.2000	0.50	100.00	-	-	Nikko Bank (Switz.)
Shikoku Electric Power Corp.	250	Feb.2001	3.50	102.65	2.923	-	UBS
Hydro-Quebec★	85	Feb.1998	2.50	101.35	1.807	-	von Ernst/Merrill Lynch
SBC Jersey Branch(m,n)	150.5	Aug.2002	2.00	100.00	-	-	SBC Warburg
STERLING							
Bradford & Bingley B/S(s)‡	200	Mar.2002	(x1,s)	100.00	-	-	BZW/UBS
BAA(s)	250	Mar.2021	8.50#	99.29R	8.571	+85(8¾%-17)	BZW
Dixons Group Finance(s)	100	Dec.2001	7.75	99.809R	7.799	+75(7%-01)	NatWest Capital Mkts.
GHOB(n)	50	Mar.2015	12.625	137.235	8.588	+70(8¾%-17)	NatWest Capital Mkts.
Britannia B/S(s)‡	150	Feb.2001	(x1)	100.00	-	-	NatWest Capital Mkts.
GUILDERS							
GECC(s)	200	Dec.2000	2.50	91.00R	4.82	-5(6¼%-00)	ABN Amro Hoare Gov.
ING Bank	500	Feb.2006	6.25	99.18R	6.363	+52(6%-06)	ING Barings
BNG	250	Mar.2001	3.00	92.41R	4.741	flat(9%-01)	ING Barings
De NIB	200	Feb.2001	5.00	99.96R	5.009	+17(i)	SBC Warburg
FRENCH FRANCS							
GECC(f)	1bn	Jan.2005	6.625	101.23R	6.441	+16(6¾%-04)	Banque Paribas
LUXEMBOURG FRANCS							
LB Schleswig-Holstein Intl.	2bn	Mar.2003	6.00	102.25	5.603	-	BCEE
Kredietbank Luxembourg	2bn	Mar.2003	6.00	102.80	5.507	-	Kredietbank Lux.
Asik-Cyar Eco	2bn	Mar.2001	(o)	102.50	4.85	-	Banque UCL
Bacob Overseas	2bn	Mar.2003	(q)	102.25	5.65	-	Bacob Bank Lux.
Partel Intl.Finance(s)	2bn	Jan.2006	6.75	101.20	6.58	-	Banque Paribas Lux.
ING US Insurance Holdings(s)	2bn	Dec.2003	6.00	102.50	5.60	-	Crédit Européen-BBL
ITALIAN LIRE							
Telebras	350bn	Feb.1999	13.00	99.75R	13.11	+345(3yrSwp)	BCI/JP Morgan Secs.
Bank Austria	200bn	Feb.1999	9.30	101.32	8.781	-	BNL/Caplplo/MPS
European Investment Bank	550bn	Feb.2006	zero	39.554	9.719	-	Deutsche Morgan G'fell
Abbey Natl.Trsy.Services	300bn	Feb.2000	9.40	101.46	8.950	-	HSBC Markets
IMI Bank Intl.(Cayman Is.)	300bn	Feb.1999	9.50	101.00	9.104	-	IMI Bank Luxembourg
DSL Bank(y)	150bn	Aug.1998	9.25	101.475	8.527	-	Paribas Capital Markets
AUSTRALIAN DOLLARS							
Commonwealth Bk.of Australia	100	Mar.2001	7.75	101.285	7.433	-	CBA
Finnish Export Credit(i)	100	Feb.1998	6.70#	100.00	6.700	-	New Japan Securities
CANADIAN DOLLARS							
Bayerische Landesbank(s)	150	Dec.2001	6.125	98.26R	6.497	flat(7½%-01)	Toronto Dominion Bank
City of Vienna	100	Feb.2002	6.25	99.125R	6.430	-2(7½%-01)	Hambros Bank
ECUS							
Commerzbank O'seas Finance	100	Feb.2005	(t)	101.779	6.397	-	Kredietbank
DANISH KRONER							
Nordic Investment Bank(s)	400	Nov.2001	6.125	101.70	5.773	-	Banque Paribas Lux.
PESETAS							
DSL Finance	10bn	Jan.2003	9.00	101.46	8.713	-	BBV/Deutsche Bank
SOUTH AFRICAN RAND							
Deutsche Bank Finance(h)	350	Jan.1997	13.50	101.15	12.21	-	Deutsche Morgan G'fell

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: $10,000 +2 wrts. Ex price: Y2,430. FX: 108.50Y/$. b) Denom: SFr50,000 +50 wrts. Ex price: Y1,435. FX: 91.26Y/SFr. Downward revision clause effective 23/2/98. c) 3-mth Libor +⅛%. e) Denom: DM5,000 +2 wrts. Each option gives holder the right to sell DM5,000 at 1.460DM/$. Exercise period: 12/3/96 - 23/12/98. f) FFr3bn launched Jan 2 & 3 was increased to FFr4bn. g) 4½% to 8/3/99 & 7% thereafter. h) R250m launched 11/1/96 was increased to R500m. i) Over interpolated yield. j) Callable on coupon dates from Feb.98 at par. (l1) 3-mth Libor +35bp. k) Fungible with DM1.5bn. No accrued. l) Long 1st coupon. m) Denom: SFr5,000 +10 2-yr wrts. 70 wrts entitle holder to SFr1 per Nikkei 225 index point over 20,571. n) Collateral: Hydro-Quebec, £50m, 12¾%, 2015. Guarantor: AMBAC. Plus 309 days accrued. o) 5% to 5/3/99 and 7% thereafter. p) Oeffentliche Pfandbrief. q) 6% to 28/2/00, then 7% to 28/2/03 and 8% thereafter. r) 3-mth Libor +25bp. s) Short 1st coupon. t) Callable annually from 13/2/98 at par. u) 3-mth Libor +20bp. v) 3-mth Libor +5bp. w) Recommended re-offer. x) Callable on coupon dates from Aug.00 at par. x1) 3-mth Libor +5bp. y) Fungible with L150bn. Plus 180 days accrued. Note: Yields are calculated on ISMA basis.

LEGAL NOTICES

No. 00187 of 1996

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT

IN THE MATTER OF QUEENSBOROUGH HOLDINGS PLC and IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 11th January 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share capital of the above named company from £13,019,254.40 to £9,980,664.80.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday 31st January 1996.

ANY creditor or shareholder of the said company desiring to oppose the making of an Order for the confirmation of the said reduction of share capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned solicitors on payment of the regulated charge for the same.

Dated this 18th day of January 1996

HERBERT SMITH
Exchange House
Primrose Street
London EC2A 2HS
Telephone: 0171 374 8000
Reference: C369
Solicitors for the above named company.

Tales of the unexpected

Slugs in salads and hugs during horror flights are just some of the bizarre happenings experienced by business travellers, according to Executive Travel magazine.

In one case, a passenger on a European flight found slugs in her lettuce, only to be told by cabin staff: "You should have made it clear you wanted a vegetarian meal."

The hugs came when a traveller reported that during an emergency landing on a CIS airline the crew seemed more frightened than the passengers. "We ended up comforting THEM," said the traveller.

A passenger clearly irritated the flight attendant on one occasion by asking for "a G and T", adding: "That's gin and tonic to you." Back came the reply – "Ice and lemon, madam? That's frozen water and sliced fruit to you."

Another flight attendant showed more of a sense of humour when a passenger was asked for his bowl of appetisers as the plane was about to depart. [illegible]

[illegible]

UN levy plan [illegible]

[illegible]

Moscow security [illegible]

[illegible]

"We have strengthened police patrols. They are protecting airport facilities and passenger safety," said an official Yuri Borisenko, deputy police chief at Moscow's international Sheremetyevo airport, said more traffic police posts were put on all the roads to the airport.

Hotel proposal rejected

[illegible]

Domestic fares cut

[illegible]

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	18	19	18	19	18
London	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Frankfurt	-1	0	1	0	-1
New York	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
L Angeles	15	17	18	18	19
Paris	[illegible]	[illegible]	[illegible]	6	5

Maximum temperatures in Celsius

Concorde takes the 20th birthday cake

On the supersonic service's china anniversary, Michael Skapinker finds the aircraft is no old crock

Time machine: Concorde is still decades ahead of its time

Such was the excitement on British Airways' first commercial Concorde flight from London to Bahrain that the crew had trouble persuading the passengers to sit down for take-off.

Brian Calvert, co-pilot on that flight, 20 years ago yesterday, remembers the passengers as an odd mix. There were journalists, politicians, and paying customers who had booked their tickets many years before – much in the way that people today reserve their seats for the first commercial flight to the moon.

Michael Donne, the FT's veteran aerospace correspondent and a passenger that day, described some of his fellow travellers in the FT of January 22 1976. "One of the more colourful aspects of the day was the robe and head-dress worn by a fare-paying passenger, Mr Bob Ingham, 50, a plant-hire firm manager from Trowbridge. He had applied for his ticket in 1969 and decided to wear 'a futuristic outfit for a futuristic aeroplane'. British Airways was not amused but could do little since Mr Ingham had paid his fare."

The BA flight made the journey from London to Bahrain in three hours and 38 minutes. It took off from London's Heathrow at the same moment that the first French Concorde set off from Paris to Rio.

On the day of those inaugural flights, Margaret Thatcher, leader of the opposition, lambasted Harold Wilson, the Labour prime minister, for presiding over a rise in unemployment to 1.43m, the highest since 1939, and Gerald Ford, US president, submitted his budget to Congress. The first BA Concorde flight was almost postponed because of union trouble involving pilots' pay.

It is a world which has changed markedly. And, since then, Concorde has reached an age when most aircraft are headed for the aerospace museum. But the most remarkable feature of the world's first and only supersonic commercial aircraft is that Concorde still looks – with its sleek lines, swept-back wings and predatory nose – decades ahead of its time.

It *is* decades ahead of its time. Calvert recalls that when Concorde was being tested, the Royal Air Force used to scramble its finest jets in an attempt to intercept it. They never could.

Dave Rowland, an experienced Concorde captain, concedes that there are military aircraft today which can fly faster than Concorde, but not for long. "Military pilots can't sustain Mach 2 for two-and-a-half hours," he says. "Nobody can do what we do."

Yet supersonic travel has never achieved what was expected of it. In the early 1960s the US Federal Aviation Administration predicted that there would be 200 supersonic aircraft operating by the mid-1970s. The FAA thought the supersonic aircraft would be for economy passengers only; the rich would fly private jets.

The long list of airlines which took options on the first Concordes, including Pan American, Japan Air Lines, Lufthansa and Qantas, never exercised them. BA and Air France are the only airlines flying Concordes today and even they use them on only a small number of routes.

After his first flight, Michael Donne reported that BA planned to extend its flights to Singapore, from where Concorde would fly to Melbourne, up to Hong Kong and then Tokyo. "From Tokyo," he reported, "the possibility emerges of flying to Anchorage, Alaska and then on to London, providing a globe-girdling Concorde operation."

Various Concorde routes have been attempted, but today BA flies only from London to New York and to Barbados, and Air France from Paris to New York – although both airlines run charter flights to other destinations. As to supersonic flight being available to economy passengers, a BA return flight from London to New York sells for £5,284, or £4,367 if you come back the same day.

There are 14 Concordes in service today, seven with BA and seven with Air France. BA says its Concorde fleet has travelled 125m miles, the equivalent of a journey from the earth to the moon and back more than 200 times. Both BA and Air France say their Concorde services are profitable.

For those wealthy enough to afford the journey or, like me, fortunate enough to be invited by BA on a day-trip to New York to celebrate the 20th anniversary, the excitement is still palpable. Most aircraft are more or less the same, whatever distinction their manufacturers claim for them. Concorde is different.

Reports that the interior is cramped and claustrophobic are overdone. It is true that the ceiling is a little low. But Concorde's 100 seats are no more cramped than those in conventional economy, and the upholstery is far superior.

Unlike large jets which take to the air in a slow and lumbering fashion, Concorde lifts at high speed with a tremendous roar of the engines. These then quieten as displays at the front of the cabin record the rapid increase in altitude and steady progress towards the sound barrier. As the aircraft moves towards Mach 1, there are some slight jerks as the engines' after-burners are started, adding additional fuel to the exhaust gases and providing extra thrust.

The transition through Mach 1 is imperceptible. For much of the journey, Concorde cruises at twice the speed of sound, 1,350 miles an hour, at altitudes of up to 58,000 feet – the edge of space. It is a noisy aircraft, but because it flies above air turbulence, the flight is remarkably smooth.

At cruise speed, Concorde's windows are hot to the touch. Such is the heat generated by the speed that the fuselage grows 10 inches during the flight, resuming its original length by the time it lands.

That heat is the key to Concorde's future. The heat burns off any moisture in the structure, preventing corrosion. Concorde's speed also means it flies fewer hours than other aircraft. BA's Concordes clock up an average of three hours flying a day, compared with 13 hours for a Boeing 747-400.

BA and Air France say their Concordes could fly for another 15 years and probably 20. A successor is unlikely to be produced within that time. Jock Lowe, general manager of BA's Concorde programme, points out that Concorde was developed in the 1960s, supported, however controversially, by the British and French governments. It was a time when projects on this scale could be mounted without any certainty of achieving a financial return.

Times have changed and governments are less open-handed. Whichever manufacturer builds a successor will need airlines prepared to commit themselves to buying them in advance. The new supersonic aircraft will need to be able to carry at least 200 passengers across the Pacific and not, as in Concorde's case, only across the Atlantic.

It is still a remote prospect. Concorde will end this century, which began with the flight of the Wright brothers, as the pinnacle of humankind's success in taking to the skies.

In his introduction to *Celebrating Concorde*, a book by former BBC aerospace correspondent Reginald Turnill, John W.R. Taylor, editor emeritus of *Jane's All the World's Aircraft*, said: "Whatever they might say, most British people are so proud of it that after more than 20 years, they still look up admiringly whenever it flies overhead.

"It is one of the few aeroplanes in history that has done everything it was designed to do – carrying up to 100 passengers in armchair luxury non-stop over the Atlantic between Europe and north America at twice the speed of sound, as a daily routine throughout the year, in perfect safety. It has never hurt a passenger in all its years of service. It is an achievement of which Britain and France can be proud."

Words which might serve for the 40th anniversary too.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 19 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jan 19 / Frs.)

[illegible]

CZECH REP (Jan 19 / Koruna)

[illegible]

DENMARK (Jan 19 / Kr)

[illegible]

FINLAND (Jan 19 / Mks)

[illegible]

FRANCE (Jan 19 / Frs.)

[illegible]

GERMANY (Jan 19 / Dm.)

[illegible]

GREECE (Jan 19 / Drachmae)

[illegible]

ITALY (Jan 19 / Lire)

[illegible]

NETHERLANDS (Jan 19 / Fl.)

[illegible]

NORWAY (Jan 19 / Kroner)

[illegible]

POLAND (Jan 19 / Zloty)

[illegible]

PORTUGAL (Jan 19 / Escudo)

[illegible]

SPAIN (Jan 19 / Pts.)

[illegible]

SWEDEN (Jan 19 / Kronor)

		+/-	High	Low	Yld	P/E
AGA A	94	...	101	67	2.4	...
AGA B	93	-.50	142.50	68.50	2.4	...
Asea A	669	+5	710	454	1.7	...
Asea B	668	+2	707	485	1.7	...

SWITZERLAND (Jan 19 / Frs.)

[illegible]

TURKEY (Jan 19 / TK Lira)

[illegible]

PACIFIC

JAPAN (Jan 19 / Yen)

[illegible]

HONG KONG (Jan 19 / H.K.$)

[illegible]

MALAYSIA (Jan 19 / MYR)

[illegible]

INDONESIA (Jan 19 / Rupiah)

[illegible]

NEW ZEALAND (Jan 19 / NZ $)

[illegible]

SINGAPORE (Jan 19 / S$)

[illegible]

AUSTRALIA (Jan 19 / Aus$)

[illegible]

SOUTH KOREA (Jan 19 / Won)

[illegible]

TAIWAN (Jan 19 / TW $)

[illegible]

THAILAND (Jan 19 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Jan 19 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jan 19 / Can $)
4 pm close

[illegible]

MONTREAL (Jan 19 / Can $)
4 pm close

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995/96, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Jan 19	Jan 18	Jan 17	1995/96 High		1995/96 Low	
Argentina							
General(29/12/77)	17555.64	17234.25	17366.65	17868.20	3/1/96	0.00	19/1/96
Australia							
All Ordinaries(1/1/80)	2247.1	2250.4	2250.3	2274.80	8/1/96	1823.30	8/2/95
All Mining(1/1/80)	1007.9	1013.8	1012.1	1041.80	8/1/96	795.30	8/3/95
Austria							
Credit Aktien(30/12/84)	374.49	363.93	365.63	398.42	2/1/95	328.50	27/10/95
Traded Index(2/1/91)	1052.12	1022.82	1030.40	1066.31	2/1/95	982.15	23/10/95
Belgium							
BEL20(1/1/91)	1662.33	1645.04	1632.74	1662.33	19/1/96	1271.50	9/3/95
Brazil							
Bovespa(29/12/83)	49090.0	48339.0	48362.0	49090.00	19/1/96	21382.00	9/3/95
Canada							
Metals Mins♦(1975)	4652.99	4810.71	4729.66	5266.37	23/11/95	3808.83	1/3/95
Composite♦(1975)	4821.00	4798.10	4773.00	4865.38	9/1/96	3991.41	30/1/95
Portfolio§§(4/1/83)	2381.99	2371.99	2365.84	2393.63	9/1/96	1953.38	30/1/95
Chile							
IGPA Gen♥(31/12/80)	5789.64	5793.90	5793.25	6363.10	11/7/95	4578.80	9/3/95
Denmark							
CopenhagenSE(3/1/83)	387.73	386.68	388.83	388.83	17/1/96	330.01	29/3/95
Finland							
HEX General(28/12/90)	1710.55	1708.74	1680.37	2332.22	14/9/95	1558.30	29/3/95
France							
SBF 250(31/12/90)	1297.44	1292.31	1292.70	1322.30	12/5/95	1164.41	13/3/95
CAC 40(31/12/87)	1964.29	1960.06	1966.00	2017.27	12/5/95	1721.14	23/10/95
Germany							
FAZ Aktien(31/12/58)	859.95	852.25	850.61	859.95	19/1/96	708.87	30/3/95
Commerzbank(1/12/53)	2488.80	2469.00	2463.00	2488.80	19/1/96	2018.70	30/3/95
DAX‡(30/12/87)	2398.76	2380.90	2371.30	2398.76	19/1/96	1910.98	28/3/95
Greece							
Athens SE(31/12/80)	988.47	952.93	952.61	992.59	4/8/95	787.15	16/3/95
Hong Kong							
Hang Seng(31/7/64)	10764.09	10536.49	10593.82	10764.10	19/1/96	6967.93	23/1/95
India							
BSE Sens.(1979)	2918.21	2940.40	2962.91	3632.09	2/1/95	2918.21	19/1/96
Indonesia							
Jakarta Comp.(10/8/82)	582.35	557.71	567.01	583.90	15/1/96	414.21	19/4/95
Ireland							
ISEQ Overall(4/1/88)	2325.07	2318.28	2312.22	2325.07	19/1/96	1813.59	23/1/95
Italy							
Banca Comm. Ital.(1972)	611.78	598.35	597.62	680.54	10/2/95	547.78	5/12/95
MIB General(2/1/95)	1032.0	1015.0	996.00	1037.00	19/1/96	982.00	15/1/96
Japan							
Nikkei 225(16/5/49)	20385.70	20370.04	20670.26	20669.00	5/1/96	14485.40	3/7/95
Nikkei 300(1/10/82)	297.38	297.83	300.89	307.38	5/1/96	222.28	13/6/95
Topix(4/1/68)	1585.52	1587.31	1605.01	1602.03	5/1/96	1193.16	13/6/95
2nd Section(4/1/68)	2091.61	2086.32	2108.05	2129.88	4/1/95	1441.90	13/6/95
Malaysia							
KLSE Comp.(4/4/86)	1056.69	1038.86	1072.35	1085.04	5/6/95	840.87	24/1/95
Mexico							
IPC(Nov 1978)	(u)	2983.31	2918.98	3011.05	5/1/96	1447.52	27/2/95
Netherland							
CBS TtlRtnGen(End 83)	554.7	550.2	549.2	564.70	19/1/96	422.90	23/3/95
CBS All Shr(End 83)	335.9	333.1	332.5	335.90	19/1/96	286.20	23/3/95
New Zealand							
Cap. 40(1/7/86)	2078.74	2068.60	2080.63	2208.02	20/10/95	1801.43	5/1/95
Norway							
Oslo SE(Ind)(2/1/83)	1280.85	1282.80	1273.98	1315.20	8/1/96	1038.00	10/3/95
Philippines							
Manila Comp(2/1/85)	2764.52	2731.27	2748.77	2858.12	10/7/95	2196.48	20/11/95
Portugal							
BTA(1977)	2594.3	2587.6	2593.80	2911.80	9/1/95	2412.80	22/11/95
Singapore							
SES All-S'pore(2/4/75)	580.78	578.71	578.62	582.73	15/1/96	472.90	23/1/95
South Africa							
JSE Gold(28/9/78)	1560.4♥	1585.6	1623.3	2023.00	2/1/95	1250.20	30/10/95
JSE Ind.(28/9/78)	8631.2♥	8621.3	8607.9	8631.20	19/1/96	6222.80	31/1/95
South Korea							
KoreaCompEx**(4/1/80)	848.07	849.14	857.08	1027.37	2/1/95	847.09	27/5/95
Spain							
Madrid SE(30/12/85)	330.54	329.67	328.33	330.54	19/1/96	284.08	23/3/95
Sweden							
AffarsvardnGen(1/2/37)	1722.4	1719.9	1713.0	1872.10	19/9/95	1438.80	29/3/95
Switzerland							
Swiss Bk Ind(31/12/58)	1532.88	1530.88	1516.19	1578.80	4/1/96	1174.88	13/3/95
SBC General(1/4/87)	1132.35	1132.60	1123.08	1165.59	4/1/96	870.58	13/3/95
Taiwan							
WeightedPr.**(30/6/66)	5016.75	5028.20	5017.48	7061.48	5/1/95	4503.37	14/8/95
Thailand							
Bangkok SET(30/4/75)	1375.03	1354.21	1371.06	1472.04	10/7/95	1135.80	16/3/95
Turkey							
Istanbul Comp.(Jan 1986)	48917.6	46989.5	46459.7	54653.90	21/4/95	24844.30	23/1/95
WORLD							
MS Capital Intl$(1/1/70)	729.4*	729.5	729.3	743.00	5/1/96	598.21	23/1/95
CROSS-BORDER							
Eurotrack 100(26/10/90)	1544.02	1537.43	1525.34	1544.02	19/1/96	1222.41	13/3/95
Euro Top-100(26/6/90)	1379.77	1371.80	1362.48	1379.77	19/1/96	1117.34	9/3/95
JCapelDrgns(31/12/88)	(c)	355.53	359.58	381.13	15/1/96	262.07	23/1/95
ING Brngs Emrg(7/1/92)	156.58	155.52	158.50	158.07	2/1/95	117.35	10/3/95

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Jan	1971.0	1967.0	+3.0	1977.0	1963.0	11,166	36,042
Feb	1976.0	1974.0	+3.0	1983.0	1972.0	147	2,765
DAX							
Mar	2407.0	2414.5	+13.0	2417.0	2397.5	25,450	-
Jun	2418.0	2427.5	+13.0	2429.0	2410.5	1,113	-
OMX							
Jan	1335.00	1327.00	-	1336.00	1326.25	4,627	14,513
Feb	1345.00	1335.50	-4.50	1346.00	1334.25	1,000	5,934
SOFFEX							
Jan	3274.0	3259.9	+2.90	3274.0	3258.0	35,923	81,133
Feb	3274.0	3253.9	-2.90	3276.0	3235.1	8,486	12,648

** Sat Jan 13: Taiwan Weighted Price 5029.30; Korea Comp Ex 874.46. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 258.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jan 19 - 2400.58 +10.66.

US INDICES

Dow Jones	Jan 19	Jan 18	Jan 17	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5184.88	5124.35	5066.90	5216.47 (13/12/95)	3832.08 (30/1/95)	5216.47 (13/12/95)	41.22 (2/7/32)
Home Bonds	105.78	105.77	105.56	105.78 (19/1/96)	93.83 (3/1/95)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1897.88	1882.71	1900.04	2092.11 (5/12/95)	1473.19 (3/1/95)	2092.11 (5/12/95)	12.32 (8/7/32)
Utilities	228.46	228.83	229.11	228.60 (16/1/96)	183.03 (3/1/95)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5214.68 (5168.98) Low 5067.48 (5032.58) (Theoretical♦)
Day's high 5193.71 (5125.07) Low 5111.70 (5068.80) (Actual♦)

Standard and Poors	Jan 19	Jan 18	Jan 17	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	611.83	608.24	606.37	621.69 (13/12/95)	459.11 (3/1/95)	621.69 (13/12/95)	4.40 (1/6/32)
Industrials♥	716.06	710.80	706.99	731.65 (13/12/95)	546.28 (3/1/95)	731.65 (13/12/95)	3.62 (21/6/32)
Financial	61.78	61.24	61.27	63.86 (6/12/95)	41.64 (3/1/95)	63.86 (6/12/95)	8.64 (1/10/74)
NYSE Comp.	327.86	326.15	325.29	332.63 (3/1/96)	250.73 (3/1/95)	332.63 (3/1/96)	4.46 (25/4/42)
Amex Mkt Val	530.62	529.05	533.21	553.59 (12/9/95)	433.12 (6/1/95)	559.58 (13/9/95)	29.31 (9/12/72)
NASDAQ Comp	1018.45	1007.24	998.30	1069.79 (4/12/95)	743.58 (3/1/95)	1069.79 (4/12/95)	54.87 (31/10/72)

RATIOS

	Jan 12	Jan 5	Dec 29	Year ago
Dow Jones Ind. Div. Yield	2.33	2.28	2.30	2.73
	Jan 17	Jan 10	Jan 3	Year ago
S & P Ind. Div. yield	2.01	2.02	1.95	2.44
S & P Ind. P/E ratio	18.42	18.30	18.95	18.76

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
IBM	13,126,800	102½	+6½
WalMart	12,094,400	19¾	+¼
Micron	10,491,800	31	-2⅛
Telefonos	7,384,800	34⅛	+2⅛
K-Mart	5,197,500	6	-⅛
Pcfc Telesis	5,151,000	29½	-2⅝
Aracruz	5,056,100	9⅝	+⅝
Citicorp	4,434,300	70	+1⅝
Gen Electric	4,205,700	74½	+1⅝
Ford Motor	4,179,300	27⅝	+⅛

TRADING ACTIVITY

● Volume (million)

	Jan 19	Jan 18	Jan 17
New York SE	498.951	449.991	459.715
Amex	20.407	22.798	17.588
NASDAQ	(u)	549.535	632.013
NYSE			
Issues Traded	3,095	3,090	3,012
Rises	1,307	1,379	1,216
Falls	1,031	973	1,110
Unchanged	757	738	776
New Highs	143	162	151
New Lows	22	31	38

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Mar	610.50	614.15	+3.85	616.20	609.50	81,897	191,701
Jun	615.60	619.60	+3.65	621.80	615.10	16	6,498
Nikkei 225							
Mar	20460.0	20370.0	-260.0	20470.0	20190.0	22,698	143,601
Jun	20410.0	20450.0	-200.0	20420.0	20220.0	2,600	21,621

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Friday, January 19, 1995

	Stocks Traded	Closing Prices	Change on day
Japan Paper Ind	8.1m	879	+76
Toshiba Corp	6.4m	828	+6
Daido Stl Sheet	5.3m	1770	+160
Nissin Corp	5.2m	889	+80
Tokyo Gas	5.0m	370	
NEC Corp	4.3m	1300	+10
Hyogo Bank	4.1m	1	
NKK Corp	4.0m	289	+3
Nippon Steel Corp	3.8m	354	-3
Takara Shuzo	3.8m	1140	+50

TURKEY: THE CUSTOMS UNION WITH EUROPE

Rumbles in the east as the gate opens

Turkey sees its customs union with the EU as a leap towards full-scale membership. In this four-page survey, John Barham explores the potential for greater integration with the West

Turkey has always struggled with an identity crisis. It faces both east and west.

Although it proclaims a European identity, few Europeans see it as such. At the same time, Turkey is a Moslem nation, but its neighbours in the Arab world and Iran traditionally view it with suspicion.

In a recent poll, the US International Republican Institute found that 41 per cent of Turks consider Turkey a European nation – slightly more than those who see it as part of the Moslem world.

It is therefore ironic, and yet somehow predictable, that an Islamic party should have won most votes in the Turkish general elections on December 24, only 11 days after the European parliament ratified a customs union between the European Union and Turkey.

The customs union, intended to bind Turkey more closely to the west, came into effect on January 1, establishing the closest trade and political relationship the EU maintains with any non-member country.

Yet the radical Islamic Refah party's success marks one of the greatest challenges to the secular, pro-European Turkish republic in its 73-year history. Although Refah lacks a majority in parliament, its rapid rise highlights the risk that confrontation, rather than cooperation, could dominate relations between Europe and Turkey.

By drawing alarming parallels with fundamentalism in Iran and Algeria, however, European commentators have overlooked the underlying strength of western values in Turkey. Many Turks consider themselves Europeans and want to play a greater role in the continent's affairs.

Mrs Tansu Çiller, who was prime minister when the customs union was ratified, said "Turkey's goal is EU membership. The struggle will continue until Turkey is a full member." Even Mr Necmettin Erbakan, Refah's leader, toned down his anti-European invective after the election as he tried to form a government. He said he would renegotiate the customs union treaty, rather than scrap it altogether as he had promised. The same goes for links with other western bodies such as Nato and the IMF.

The customs union was originally conceived in 1963 to anchor Turkey in the west, but without admitting it to the then European Community. (Brussels rejected Turkish applications to join the EEC in 1958 and 1987.)

This rationale grew stronger following the Soviet Union's collapse, when western governments identified political Islam as a strategic threat. Turkey is the region's most populous Moslem state and its largest and most sophisticated economy. It is also one of the Moslem world's rare secular, pro-western democracies. An Islamist threat to Turkey therefore has far-reaching repercussions.

Mrs Çiller played on this fear during the difficult ratification process of the customs union, when European MPs threatened to block the treaty because of Turkey's human rights record. She warned last April that "fundamentalism is only going to be a threat if Turkey is left out of Europe. I think Europe [needs] Turkey if it does not want the forces of fundamentalism to move up to its borders."

While many western analysts agree with this, most would add that political Islam's principal driving force is discontent caused by Turkey's chronic economic and social problems.

Mr Arnold Hornfeld, head of Siemens' operations in Turkey and a man with an intimate understanding of Turkish society, says "Turkey is more western-minded than even many Turks realise". But he warns "economic difficulties are the main cause of political disturbances". As long as the economy grew faster than the population, all should be well, he said.

Business executives hope the union will narrow the scope for irresponsible government policies that feed public sector deficits, debt and inflation while suppressing investment and growth. One senior executive at Koç Holding, the country's biggest industrial conglomerate, says: "The customs union will increase volumes of trade, bringing greater economic activity and reducing volatility in the economy".

The union brings Turkey into the single European market, and extends most of the EU's trade and competition rules to its economy. In principle it should prepare it for accession to the EU at some undefined, though probably distant date. Turkey is already among the EU's largest export markets and the EU takes about half its exports.

However, customs union may also bring a period of disruption as industry restructures. Years of underinvestment and protectionism have blunted competitiveness. Mr Sakip Sabanci, head of the eponymous industrial group, says productivity has declined relative to Europe in recent years: "Where productivity in Europe was 100, in Turkey it has fallen from 20 to 16."

Companies with weak management and financial structures using obsolete technology to produce poor quality goods are most at risk. Among these are almost the entire public sector, the steel and chemical industries as well as many small and medium size companies.

Customs union will benefit competitive industries, such as glass, textiles or ceramics. Sectors once thought to be vulnerable to European competition, such as the car industry, have undergone thoroughgoing reorganisation. Still, even well-run companies, such as white goods, that lack economies of scale to compete in an open market may face difficulties.

The union will almost certainly bring far-reaching changes in Turkey's business culture. Import competition is expected to drive down high margins, forcing owners of private companies gradually to surrender control. This process has already begun: the number of quoted textile companies doubled to 22 between 1990 and 1995.

Trademark piracy, a long-standing problem, should decline now Turkey has adopted stricter intellectual property regulations. EU consumer rights and safety standards will force companies to address issues that once received scant attention. EU competition rules will reduce the scope for subsidies.

With time, the customs union should boost investment, bringing growth, more jobs and higher incomes. Europe is already Turkey's largest source of inward investment. Although some new projects and investments have been announced recently, bankers say large investment will begin once the political climate improves.

Some businessmen reckon the customs union will only bear fruit in three to five years and fear it may at first increase social stresses that radical parties like Refah could exploit. The EU has promised aid and loans to help Turkey through this difficult initial phase. However at only Ecu1.48bn over a five year period, this is a relatively modest amount for a big economy.

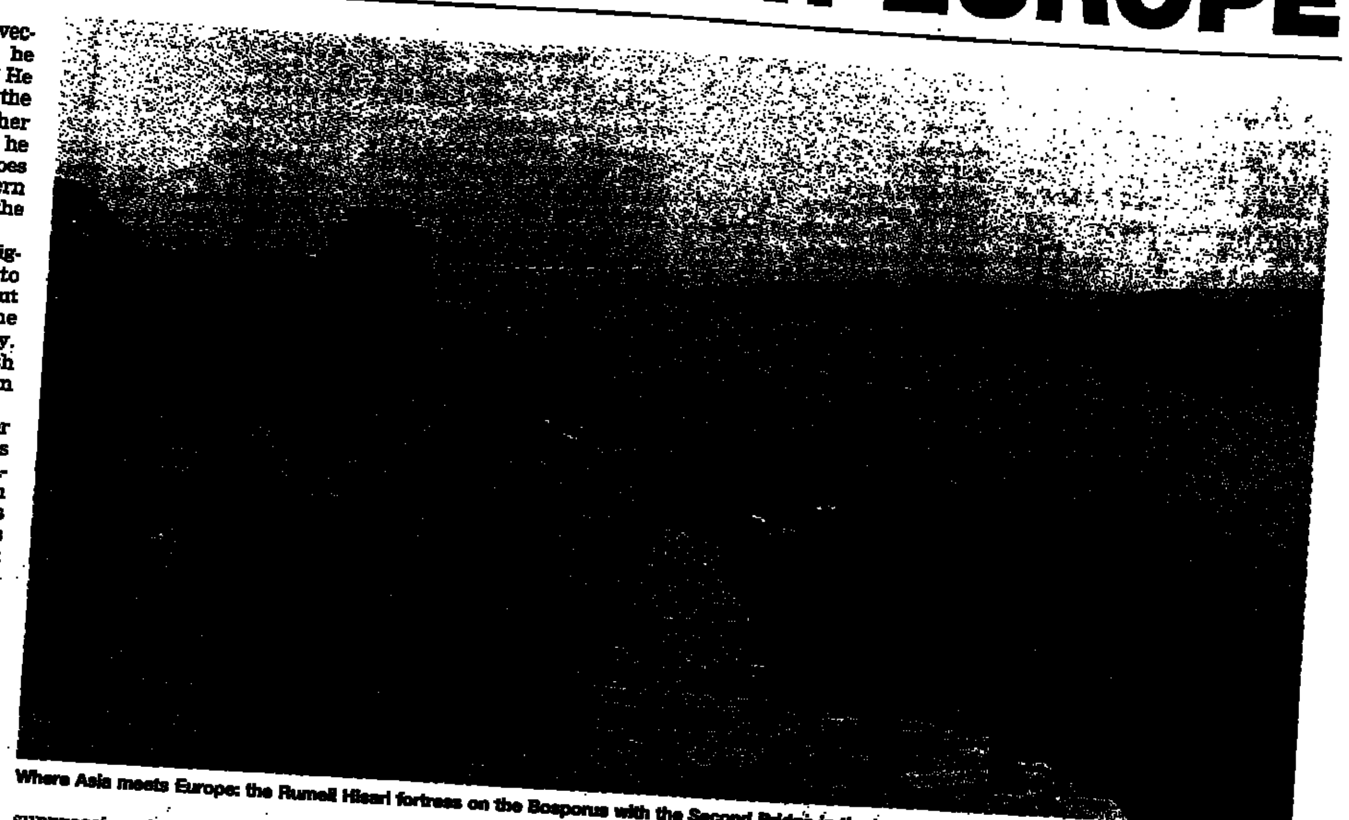
To make customs union succeed – and further its case for EU membership – Turkey must reform its economy. A western ambassador forecast that European and US governments would urge the incoming government to adopt serious reform policies.

Turkey is not growing fast enough to provide jobs for the 1m young people entering the jobs market each year. With the population growing by about 2 per cent a year, Turkey will have nearly 70m inhabitants by the year 2000.

Marketing executives say the economy must grow steadily by at least 7 per cent a year to make a noticeable impact on incomes. But they forecast half this rate for 1996 and 1997. Allowing for inflation and population growth, real incomes stopped rising in early 1994, when economic turbulence cut them to 1985 levels.

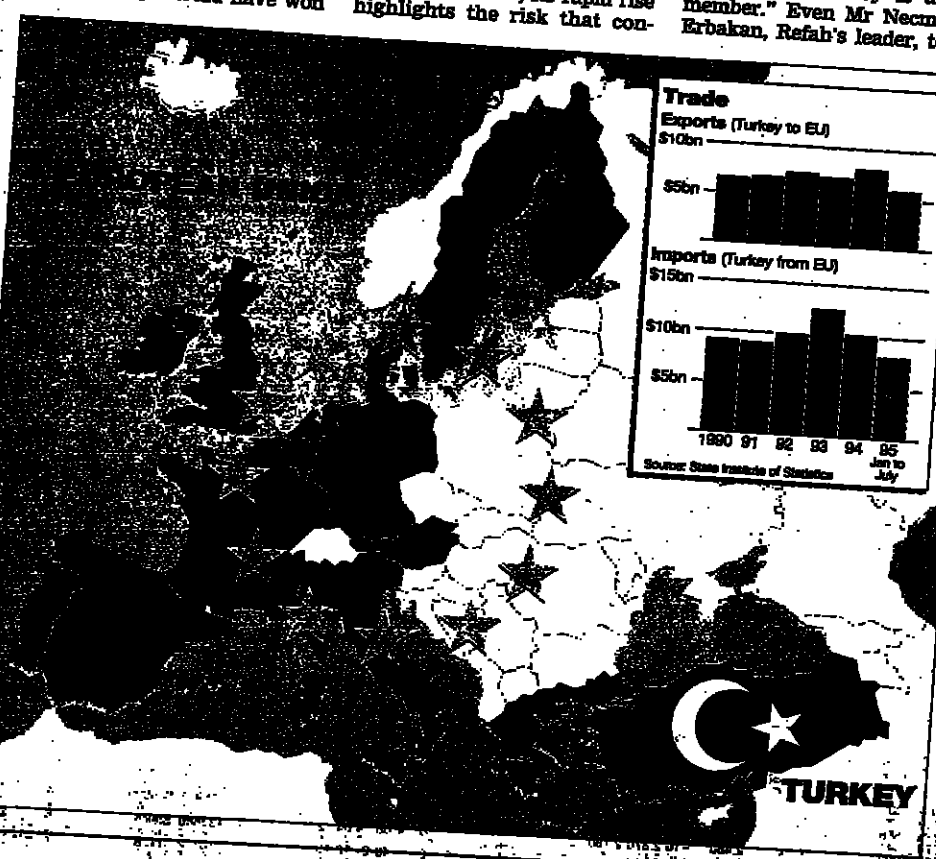
Rapid urbanisation is further adding to social strains. Peasants pour into crowded big city slums where unemployment is rife. Istanbul alone receives about 400,000 migrants annually, many of them fleeing vio-

Continued on Page IV



Where Asia meets Europe: the Rumeli Hisari fortress on the Bosporus with the Second Bridge in the background

Tony Kirk



■ STATE OF THE ECONOMY

Riding high in a violent storm

Tough decisions face the incoming government. The longer it waits the harder its task

Turkey has begun the new year with an economic crisis as well as a political one. It faces both critical short term difficulties as well as profound long term challenges.

The economy's immediate problems are easily apparent.

It is afflicted by chronic inflation and heavy debts. Prices rose by 79 per cent last year, but inflation is now expected to increase sharply although the central bank's decision to keep interest rates strongly positive – rates have sometimes reached 200 per cent – will keep the lid on inflation in the short term. However, companies are forecasting that inflation will still range between 75 and 100 per cent in 1996.

The government is also facing a domestic debt crisis. It is not so much the size of these debts as their maturities and high interest rates they bear. Interest on the $24.4bn domestic debt fluctuated at around 30 per cent in real terms last year and service payments consumed close to 8 per cent of GNP. Domestic investor confidence has evaporated, reducing maturities to little more than 100 days. As a result, the government must roll over most of its local currency debt in the next six weeks.

The $73.61bn foreign debt is more manageable, with this year's service charges falling slightly to $11.34bn, and foreign bankers expect the treasury will have little difficulty in honouring debt and principal.

Turkey's economic troubles grew worse in the last months of 1995 as Mrs Çiller's outgoing government boosted growth in the hope of winning reelection, abandoning partially successful attempts to meet economic targets agreed with the International Monetary Fund as part of her 1994 $740m standby loan. Turkey met none of its 1995 policy targets.

The incoming government will have to rush a budget through parliament as soon as it takes office to boost cashflow allowing it to meet the mounting debt repayment schedule. Economists fear that the longer it takes to form an effective new government, the more severe the policies it will have to adopt.

Although politicians vehemently deny they would restructure the government's domestic debt, bankers in Istanbul would not be surprised if the treasury were forced into a unilateral rescheduling of the domestic debt.

Alternatively, the government might simply monetarise its bonds, allowing heavy inflation to eliminate its debt mountain. This would be an extreme solution which few analysts are expecting. The most likely outcome is that the next government will attempt to muddle through as long as possible.

The public sector's huge deficits are fuelling inflation and debt. The state companies, bureaucracy, armed forces and social security system spend far more than the government can collect in taxes. But politicians have consistently avoided grappling with these powerful vested interests.

All mainstream political parties put privatisation, liberalisation and combating inflation as their top priorities but markets doubt whether a weak coalition government can make much headway in reform. Still, economists say inflationary expectations and interest rates would tumble once the market was convinced that politicians were genuinely committed to public sector reform.

Although privatisation has been an official government policy since the late 1980s and most parties now support it, very little progress has been made. Last year the government struggled to sell $500m-worth of state assets, one-tenth of its target at the beginning of the year.

Still, it is a tribute to Turkey's resilience that the economy grew 7.1 per cent in 1995, following a 6.1 per cent decline the previous year. Exports actually grew last year, in spite of a 13 per cent revaluation in real terms of Turkey's currency.

Much of the growth is attributable to the underground economy. Estimates of its size vary widely, but most economists agree that it is about the same size as the formal economy.

It may have helped Turkey to weather successive economic crises with relatively little social trauma, but it spawns organised crime and companies evading taxes compete unfairly with those that pay taxes and onerous employment taxes.

Economists have urged successive governments to attack evasion more aggressively by simultaneously lowering tax rates and widening the tax net. This would increase revenues, narrow the budget deficit and reduce inflation.

Indirectly, customs union may also help foster economic stability now that Turkey must follow EU rules on state aid and competition.

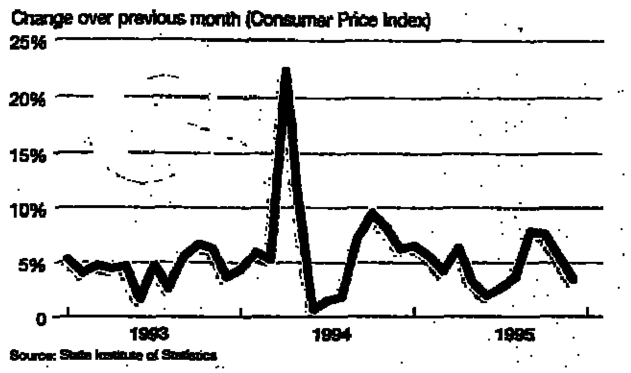
In principle, the government cannot continue bailing out loss-making state companies or subsidise favoured industries. Greater import competition and investment flows could also bring greater stability.

The EU is already Turkey's main source of inward investment. It is Turkey's principal trading partner, providing roughly half of its imports and taking half its exports.

Economists say Turkey's economic growth rate could easily increase by half to at least 7 per cent a year if the government restructured the economy. But slaying debt and inflation requires a political consensus that has evaded Turkey for decades.

Inflation

Change over previous month (Consumer Price Index)



Source: State Institute of Statistics

TOTAL OUTSTANDING FOREIGN DEBT ($bn)

Year	Debt	% of GPD	Service payment
1991	50.49	32.9	7.56
1992	55.59	34.7	8.73
1993	67.36	35.5	8.23
1994	65.60	50.6	9.99
1995	70.59	44.3	12.53
1996	73.61	50.60	11.34

Source: ISCA

Industrial muscle: F16 jets being assembled by Turkish Aerospace Industries for the Turkish airforce Terry Kirk

KEY FACTS

Area	769,360 sq km
Population	62.3 million[1]
Head of state	Süleyman Demirel
Currency	Turkish Lira (TL)
Average exchange rate	1995[7] $1=TL 59,501

ECONOMY	1994	1995[1]
Total GDP (TLbn, 1987 prices)	91.81	98.32
Real GDP growth (%)	-6.0	7.1[1]
GDP per capita ($)	2,159	2,733
Components of GDP		
Private consumption	67.1	N/A
Government consumption	11.6	N/A
Fixed investment	24.4	N/A
Exports	21.3	N/A
Imports	-20.3	N/A
Change in stocks[4]	-4.1	N/A
Annual average growth in:		
Consumer prices (%)[3]	125.46	78.9
Industrial output (%)	-4.8	8.0
Car production (units)	212,651	233,414[6]
Unemployment (%)	10.85	10.24
Reserves minus gold ($bn, Dec)	7.17	12.38[7]
Money growth (M1, % pa)	81.5	70.0
Stk mkt indx ($, annual % change)	-49.19	-6.68
Stk mkt indx (annual % change)	31.79	46.84
Current account balance ($m)	2,631	-866
Merchandise Exports($m)	18,331	21,667
Merchandise Imports ($m)	-22,600	-30,623
Trade balance ($m)	-4,269	-8,956
Main trading partners (1994)[8]	Exports	Imports
Germany	21.7	15.7
US	8.4	10.4
Italy	5.7	8.6
UK	4.9	5.1
France	4.7	6.3
EU	45.6	44.2

(1)Estimate. (2)End of 1995. (3)Estimate unless otherwise stated. (4)Plus statistical discrepancy. (5)End period. (6)Calendar 1995. (7) Dec. 29, 1995. (8)Share of world trade.
Sources: Datastream, Economist Intelligence Unit, national sources

CASE STUDY TOFAŞ

Top carmaker looks ahead

Turkey's boxy, old-fashioned cars have never inspired much respect among local consumers or great fear in foreign competitors. As customs union approached, the industry looked easy prey for predators.

But instead of rolling over, the car industry has undergone radical restructuring. Two companies dominate the market. Renault is allied with OYAK, the army pension fund. Tofaş, Fiat's joint venture with the Koç conglomerate, controls over half the market.

Mr Jan Nahum, general manager of Tofaş, says "we have been planning for a long time". He designed a five-year, $800m investment programme to produce new models and raise productivity, quality and design standards.

Mr Nahum believes the loss of the industry's 20 per cent protection from EU imports is "containable". Imports take about 10 per cent of the market now, but Mr Nahum expects their share to rise to "30-35 per cent in a few years and then stabilise at this level".

Mr Nahum says: "It will be at the cheaper end of the market that we will be in direct competition with imports." Hyundais, Skodas and Ladas are Turkey's best-selling imports.

Although Tofaş's 52 per cent market share will fall, Mr Nahum still hopes to sell more cars as the market grows: today, Turkey has only 37 vehicles per 1,000 persons, about one-tenth of the EU average.

Tofaş must also begin incorporating new environmental and safety features in its cars to meet more stringent EU standards. Although the three Fiat models Tofaş already exports to Europe meet these standards, it has five years to upgrade its cheaper locally-developed models.

Koç, Tofaş's parent, accepts that it can no longer finance expansion from its own capital. Tofaş has almost no debt, but Koç says it will dilute its stake in the company by issuing more equity and gradually raise leverage to 35 per cent as margins decline.

Import competition is not the only worry. Japanese and South Korean companies are planning to set up manufacturing plants in Turkey to supply the domestic and export markets. Toyota already has a $325m plant outside Istanbul producing 20,000 Corollas a year for the domestic market. Honda, Hyundai, KIA and Mazda are all considering investments.

Mr Nahum's strategy is to strengthen ties with Fiat, which holds 37.9 per cent of Tofaş. He says: "Tofaş should be seen as a resource for Fiat, a manufacturing base for customers anywhere."

He is narrowing the range of Turkish-made cars and expanding Fiat imports while increasing exports of cars and parts to other Fiat units.

■ THE POLITICAL DIMENSION

Membership is the goal

Formidable barriers could thwart Turkey's drive for full EU status

For Turkey, customs union is only a means to achieving EU membership. Mrs Çiller told her hosts at the EU's Madrid summit, shortly after the European parliament approved customs union, that "the struggle will continue until Turkey is a full EU member".

This will not be easy. Ostensibly, customs union is a half-way house to membership, but few European diplomats imagine Turkey joining the EU in the foreseeable future.

A European Commission paper explaining rejection of Turkey's 1987 membership application said its incomes gap with Europe, regional disparities, agricultural imbalances not to mention insufficient political and human rights were too great even to discuss a date for accession talks. Little has changed since then.

Mrs Pauline Green, head of the socialist bloc in the European parliament, spelled out the realities with brutal clarity in a recent press interview: "Turkish politicians are trying to convince people that customs union [means that Turkey] is almost in the European Union. This is nonsense. As far as we are concerned the customs union stands alone. It means that Turkey is a sort of arms-length partner of the EU."

Human rights are the largest single problem in Turkey's relations with Europe. Mrs Green warned that "if Turkey wants to be included in the [European] family it must subscribe to the same norms and values as the rest of Europe in terms of human rights and democracy".

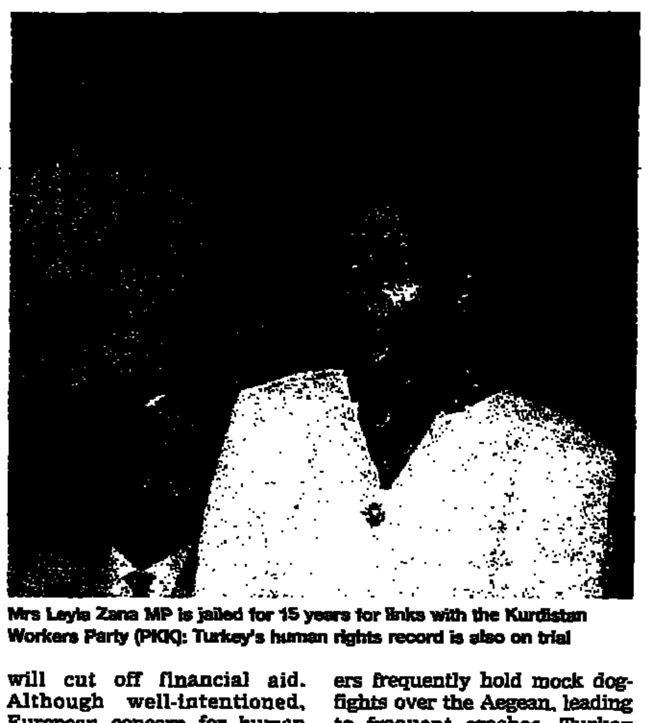
"Disappearances", torture, murder by unknown assailants – often linked to security forces – are common. Turkey's human rights association counted more than 400 such cases last year. About 10-20 combatants and civilians die every day in southeastern Turkey, scene of an 11 year conflict between government forces and guerrillas of the Kurdistan Workers party (PKK).

Pressure from the European Parliament last summer forced Turkey to modify its constitution and anti-terrorism laws, used to punish non-violent dissent.

But prosecutors continue bringing cases against journalists, writers, Kurdish nationalists and opposition politicians. They are tried under an array of laws that consider it a crime to "provoke hatred or animosity between groups of different race, religion, region or social class" or question the "indivisible integrity of the republic of Turkey". Even Mr Yaşar Kemal, Turkey's greatest living writer, was indicted and later acquitted for spreading "separatist propaganda".

Among Turkey's political prisoners are four Kurdish MPs jailed last year for 15 years under the anti-terrorism law for links to the PKK. One of them, Mrs Leyla Zana, was awarded the European parliament's Sakharov human rights prize. Although changes in the anti-terrorism law allowed the release of more than 70 prisoners, human rights organisations note that it still criminalises dissent, adding that many of those released will be retried.

European MPs will monitor human rights and if necessary will cut off financial aid. Although well-intentioned, European concern for human rights is widely resented as meddling by foreigners.



Mrs Leyla Zana MP is jailed for 15 years for links with the Kurdistan Workers Party (PKK): Turkey's human rights record is also on trial

However, the parliament's debate on ratifying the customs union treaty showed that political and strategic issues still outweigh concern over human rights. Mrs Çiller won the day by playing on Europe's fear of fundamentalism. She said: "Rejection will give the upper hand to the fundamentalists here and in the region."

Europe is probably right to be worried about the growth of political Islam. Eleven days after the European parliament approved customs union, the Islamist Refah party won the most votes in general elections. Mr Alan Makovsky of the Washington Institute for Near East Policy warns that "long term trends suggest Refah's popularity has not yet crested". He says it "has increased its vote percentage in each successive election" since the return to civilian rule in 1983. In 1987, Refah took 7 per cent of the vote. Last December it took 21 per cent.

The rise of political Islam is worrying because of its radical message, because it could worsen political instability and because it raises questions about the durability of Turkey's pro-western orientation. Turkey is a founder-member of Nato and associate member of the Western European Union, the EU's defence arm. It is a key player in the EU's new Mediterranean initiative. It is a crucial western bulwark in the Middle East, the Caucasus and the Balkans.

Despite the importance of these areas of cooperation, Turkey's relations with the west are clouded by animosity and suspicion. Even President Süleyman Demirel often claims there is a hidden western agenda to divide Turkey.

Bitter relations with Greece, an EU member and Nato ally, are a permanent source of friction. Greek and Turkish fighters frequently hold mock dogfights over the Aegean, leading to frequent crashes. Turkey warned last year that it would declare war on Greece if it attempted to implement the new international law of the sea by extending its territorial waters in the Aegean sea.

Cyprus is emerging as Turkey's most contentious bilateral foreign policy issue this year. Turkey intervened on the Turkish Cypriot side during the civil war in 1974 and still maintains 35,000 troops there. Only Turkey recognises the government of Mr Rauf Denktash and has stated it will not join the EU's mandatory sanctions against northern Cyprus. This is not an immediate problem since

> The rise of political Islam casts a shadow over the future

Turkey has two years to adopt EU rules on trade with third countries. However, Turkey could be challenged for re-exporting northern Cypriot products to Europe.

Ankara opposes EU accession for Cyprus, which will begin membership talks after the EU's intergovernmental conference, until the island is reunified. Hopes last year that lifting Greece's veto on customs union and scheduling membership talks for Cyprus would bring the island's two communities together have come to little.

Meanwhile, Turkey's membership prospects look as remote as ever. Mr Nahit Töre, of Ankara University's European Union research centre, says: "If central and eastern European countries are eligible for membership, then Turkey is too." He believes that if customs union works smoothly, "it will be more and more difficult to say no".

■ FACING UP TO OVERSEAS COMPETITION

Local companies take the heat

The customs union will lead to an inexorable fall in Turkish companies' profit levels

Until quite recently, Turks could be jailed for selling illegally imported Marlboro cigarettes or Levi jeans. It was a criminal offence to hold foreign currency. Ground coffee was only obtainable on the black market.

Although Turkey began dismantling these formidable import barriers in the early 1980s and import competition has increased rapidly since then, customs union presents companies with an entirely new challenge.

By sweeping away controls on nearly all imports from the EU, which supplies about half Turkey's imports, the competitive heat will increase substantially on Turkish companies.

Last year, Turkish companies enjoyed an average 6 per cent import protection on goods from European Union countries – so European exporters will benefit by about $2-3bn a year. But some industries had much higher barriers. Beer had 50 per cent effective import protection, cars 30 per cent and white goods 9 per cent, so the competitive challenge may be more significant.

However, European Commission officials expect greater benefits will appear over the long term. For instance, trademark piracy should decline and investment opportunities increase. Adoption of stricter EU consumer and safety rules will open new markets for more sophisticated machinery or consumer products.

Analysts say many Turkish businesses had profit margins as high as 40 per cent or over last year. Those days have probably gone for good as cheaper European imports gradually erode Turkish companies' super profitability.

The car industry was once expected to suffer seriously from increased European competition. Turkish negotiators attempted to win a "derogation", or temporary opt-out from customs union. However, car companies have invested heavily and are now among the best prepared sectors *(case study on facing page)*.

The real victims of customs union will probably be businesses suffering poor investment, weak management and high costs. For instance, Turkey's paper makers tend to be smaller, less efficient than the EU's big Scandinavian producers and tend to use outdated technology.

Although some paper companies are investing to upgrade their technology and expand capacity, a report by Global Securities, an Istanbul brokerage, says "investments were not always completed due to high inflation and economic instability. Today there are only two machines that can operate with economies of scale."

The same goes for many other sectors. Mr Yavuz Canevi, an Istanbul banker and head of the YASED foreign investment association, says: "In 1985-6 there was a big investment boom and a there was a large incorporation of technology." However, there had been little large scale investment since then, particularly among small and medium enterprises. He says they "have transferred almost no technology in the last 10 years".

Furthermore, small companies are only remotely aware of how customs union will affect them and most lack the management skills to identify appropriate survival and growth strategies. In most cases, European products rival Turkish products in quality, reliability and sophistication, although higher prices can offset these attractions.

Larger companies, though, have streamlined their internal management structures, lowered break even points and raised investments in capacity to attain economies of scale and productivity. More subtly, companies are trying to change their business culture.

Mr İlker Keremoğlu, chief executive at Turkey's largest brewery Efes, says: "Before, when we had 20 per cent of the market we were really competitive. But we have dominated the market since 1975, so we have to try changing the mentality of our people." He says Efes is trying to shake off complacency with internal reforms that "simulate" competition. Efes has also spent heavily on new capacity, modern equipment and on its sales and distribution system.

The customs union will benefit local companies that buy raw materials or components from EU countries. Imports comprise about one-fifth of local products, by value. Mr Attila Yeşilada, Global's research director, says: "The tariff cuts will reduce companies' costs as imported inputs and raw materials are become cheaper". But non-European players, particularly Asian exporters of raw materials, components and consumer electronics, would be big losers from customs union: "Companies that import from non-EU countries will find their costs increasing while competition also rises," he says.

However, few companies are expecting an import surge. Mr Maarten van Fontein, of Unilever, points out that "the drop in tariff production will bring a 10 per cent price reduction, which will be obscured by inflation and exchange rates". Marketing executives expect the economy to remain depressed for the next two year, limiting the scope for imports.

Furthermore, the government has increased consumer taxes to offset an estimated $2.5bn-$3bn drop in customs revenues. This, together with rising inflation, has meant that customs union has had little immediate effect on prices since January 1.

The principal long term effect of customs union will probably be a gradual but inexorable erosion of companies' profit margins. Although companies earn a substantial part – possibly as much as 70 per cent – of their profits from financial operations, their operating margins are still well in excess of international averages.

Imports will cut profits and force companies to begin financing investment through borrowing and selling equity rather than from cashflow as is often the case now. This will reduce the preponderance of family companies, as owners are forced to sell equity to raise capital and surrender control to professional managers.

Thinner margins will also force them to narrow their focus. An industry analyst says: "Maybe local companies will not be able to be market leaders in all their sectors. Maybe they will not be able to cover the entire range."

Some may not even survive. The mortality rate among small and poorly-capitalised companies may be high. Acquisitions by Turkish or foreign companies are bound to increase. So far, few deals have been done – among them is Siemens-Bosch's $140m acquisition last year of 67 per cent of Profilo, a white goods maker.

Some Turkish companies are starting to buy European competitors. Koç Holding, the big industrial group, is buying Foron, a small German white goods maker which makes washing machines and ozone-free fridges. Türk Boston bank is buying AB Anker Bank, a minor German retail bank.

An investment banker says this is because of "uncertainty over the situation in Turkey and that there are few companies available. The Turks are too good traders to sell at the bottom of the market." Equally, there have been few distress sales because companies have avoided taking on debt at punitive interest rates.

Still, Mr Canevi says, "there will be some dead ones after a few years". Rumours abound about which these will be. Not all will be basket case companies. Arçelik, the highly regarded household appliance maker, for instance, is a small company in a business that is increasingly dominated by large names.

Many equity analysts say its parent, the Koç group, is seeking an international partner, although Arçelik itself

Continued on next page

TURKISH EXPORTS - TOTAL AND TO EU ($bn)

Year	Worldwide	To EU countries only
1990	12.959	6.893
1991	13.593	7.042
1992	14.714	7.600
1993	15.344	7.298
1994	18.107	8.268
1995 (Jan-Jul)	11.711	6.101

Source: State Institute of Statistics

The end is nigh for brandname pirating and copyright theft Terry Kirk

■ WHAT THE TREATY SAYS

Free traffic of goods

Few people will ever plough through the entire customs union treaty with its 64 articles, annexes, notes and additional resolutions. However, a basic grasp of the text is indispensable to those doing business in Turkey.

Customs union was first envisaged by the Ankara Agreement signed in 1964, which established the framework for relations between the then European Economic Community and Turkey. It set 1995 as the deadline for establishing a customs union. The Agreement was modelled closely on the 1958 Treaty of Rome which established the EEC. As the Community developed beyond a free trade area, the customs union has also evolved to include common trade and competition rules.

Customs union guarantees free circulation of goods and capital – except for agricultural products. Although "customs duties and charges having equivalent effect shall be wholly abolished" and quantitative restrictions, such as quotas or "voluntary restrictions" will also be prohibited, Turkish exports may face EU anti-dumping charges.

A Customs Union Joint Committee will be the main body ensuring that trade operates smoothly by hearing disputes and tackling technical hitches. It will meet at least once a month. Where necessary, disputes can go to binding arbitration.

Turkey must harmonise its laws with EU legislation wherever they affect issues of "direct relevance" to the customs union. Turkey must adopt "substantially similar [trade measures] to those of the Community" in relation to non-members. This includes EU restrictions on imports of cars, textiles and clothing. Turkey must also incorporate the EU's preferential trade agreements into its trade policies. It will also have to apply the EU trade embargo on the Turkish-backed administration in northern Cyprus within two years.

Turkey may resume or suspend certain duties, but it must inform the EU and negotiations will be held in the ambit of the Joint Committee. Turkey is entitled to retain higher duties until January 1, 2001 for certain agreed products.

Although farm products are excluded from the customs union, Turkey is required progressively to adopt the Common Agricultural Policy to enable the future free circulation of agricultural products.

Trade mark piracy and theft of intellectual property is forbidden. Turkey "shall continue to improve the effective protection of intellectual industrial and commercial property rights in order to secure a level of protection equivalent to that existing in the EC and take measures to ensure these rights are respected".

Turkey has adopted the EU's competition rules. Price fixing, market sharing, abuse of dominant market position and other forms of anti-competitive behaviour are banned "as incompatible with the proper functioning of the Customs Union". Aid to industry which distorts competition is also illegal.

Negotiations on mutual opening of government procurement markets in Turkey and the EU will start "as soon as possible" after customs union commences. Neither side is allowed to use internal taxes as indirect protection mechanisms or to use tax rebates as an export subsidy. Where necessary, either side may unilaterally take "protection measures" to prevent trade distortions, which the Joint Committee will rule upon ex post facto.

Although Turkey will have no say in formulation of trade policy, the EU will consult informally with Turkish experts, who will also be involved in the work of technical committees that advise the Commission, when drawing up legislation that may affect the customs union.

Political dialogue is a recent addition to the customs union mechanism. This ranges from annual meetings of Turkey's prime minister or president with the Commission's president and the country holding the EU's rotating presidency. Foreign ministers and senior officials will meet every six months.

European and Turkish officials will hold occasional meetings on common foreign and security policy and Turkey. Turkey will also receive a financial assistance package of loans and grants totalling about Ecu1.48bn over a five year period.

Customs Union with the EU, bilingual edition of the treaty, available from Intermedia, Aytar Cad. 16/11, Levent 80600, Istanbul Fax (212) 264 5209

A nation on the march: but in which direction? Terry Kirk

PROFILE Arnold Hornfeld of Siemens

The roots are deep

Arnold Hornfeld was born in Turkey, speaks perfect Turkish and probably understands the country better than most foreign executives. Siemens, the company he runs, has also deep roots in the country.

Its history in Turkey goes back to the 19th century, when it exported copper from Ottoman mines. Siemens set up a manufacturing base in 1952. Like many multinationals in Turkey, Siemens grew big at a time when high import barriers virtually sealed it off from competition. Mr Hornfeld says Siemens became so vertically integrated that "we almost made our own screws".

Naturally, customs union exposes Siemens to the same competitive pressures as Turkish companies. Mr Hornfeld decided to broaden

Arnold Hornfeld: Turkey is a platform for regional exports

his company's local business, which includes electrical engineering, cables, telecom switches and auto components. Last year a 50-50 Siemens-Bosch joint venture paid \$140m for a 67 per cent stake in Profilo, a white goods company.

Mr Hornfeld says Profilo "is number two in Turkey and has very good machinery. We will invest DM30-40m in 1996 to manufacture high-tech, complex goods that will improve the Bosch-Siemens' brand name [recognition]." As well as gaining exposure to Turkey's domestic market, Profilo will allow Siemens to move production of some lines from high-wage Germany to Turkey.

The acquisition of Profilo by such a large international player represents a formidable challenge to the market leader Arçelik, which claims two-thirds of the market. Arçelik, formerly a Bosch-Siemens licence, rebuffed its advances and decided to try make it as an independent.

Customs union is also forcing Siemens to look at its traditional activities more closely. At first, Mr Hornfeld says "there will be no big changes in production. Our companies are all state of the art." However, with time Siemens will "increase [local] production of some lines and import others so that we can extend our efficiency and concentrate more quantity in a single place. This will be a major part of our philosophy at Profilo."

In other ways, business in Turkey for big groups which, like Siemens, rely on public procurement, will remain substantially unchanged at least for several years. Turkey will expand its role as Siemens' export platform for sales of cables and traffic systems to the Middle and Far East backed up by an R&D staff of 300.

And the customs union treaty specifies that negotiations on mutual opening of government procurement markets in Turkey and the EU will begin "as soon as possible" after customs union commences.

Mr Hornfeld reckons that public investment, particularly power transmission, must soon pick up after several years of steep decline. Equity analysts point out that established government suppliers such as Siemens will not be exposed to much competition in the near future. Turkey will still have plenty of leeway in keeping the government contracting market closed to outsiders if it adopts some of the rules prevalent in EU national markets.

■ DEMOGRAPHIC CHANGES BOOST TURKEY'S PURCHASING POWER

Pockets of wealth amid the poverty

Parts of the country resemble Belgium, others are still at a Third World level

With a population of 62.3m people, Turkey may be a large country, but this does not necessarily mean it is a big market.

Mr Erdal Karamercan, vice president for consumer products at Eczacibaşi, a big pharmaceuticals to nappies group, says "in some [markets] Turkey is nearly as big as Germany, but in others it is so low that you cannot even compare it to Greece, with a population of 10m."

Average incomes in EU countries are \$15,835 a year. In Greece, the EU's poorest country, incomes are one-third lower but in Turkey they are a mere \$2,200 a year.

Still, many of those in the select top 10-15 per cent of the population enjoy living standards as good as anywhere in the developed world. An Istanbul investment banker says "part of Turkey is like Belgium but the rest is at a third world country level."

The 6-10m reasonably affluent consumers concentrated almost entirely in three main cities – Istanbul, Izmir and Ankara – still make Turkey an important market for everything from perfumes to detergents.

Yet what makes Turkey really exciting is its outstanding growth potential: it is a young, fast-growing country with low consumption rates for almost all consumer products. Mr İlker Keremoğlu, head of the Efes brewery group, Turkey's largest, says Turks drink a mere 10 litres per head per year – less than a tenth of consumption in mature markets, but demand is growing at 10 per cent a year, much more than in western Europe. He says "demographics are the most important thing for us. We have an enormous young population."

Turkey offers emerging market growth prospects right on Europe's doorstep, with the added advantage that with customs union, EU-based exporters have duty free access to the market. Furthermore, Turkey now works to EU consumer protection, safety and intellectual property standards.

However, understanding this market is not always easy.

To start with, Turkey has plenty of emerging market volatility: although the economy has expanded at an annual average rate of 5 per cent since 1980, growth has fluctuated tremendously over the years. In 1995, GDP rose by 7.1 per cent, but this barely makes up for a severe drop the year before. Predicting these booms and busts is all but impossible – in 1994, many companies saw sales drop by half when Turkey suffered one of its worst economic downturns ever.

Detergent companies say downmarket brands now account for half their sales. In 1993, they accounted for one-quarter of sales. But last year was a boom year. Mr Mehmet Ali Berkman, president of Arçelik, Turkey's leading household appliances maker, says "1995 was a very, very good year, one of our best". Sales topped \$1bn and output rose by one-fifth over 1994. But in dollar terms, Arçelik sales are still about 10 per cent less than in 1993.

Furthermore, disposable incomes are hard to judge because so many people work in the unregistered economy. Estimates for the underground economy vary, but most estimates reckon it is as large as the formal economy. Allowing for this, average Turkish incomes are far higher than official statistics would suggest.

Unilever, the Anglo-Dutch consumer products group, says the income gap between Europe and Turkey gradually declined by around half between 1980, when economic liberalisation began, and 1993. However, living standards have suffered a drastic decline in the last two years, returning average incomes to 1985 levels and widening the already large gap between the rich and poor.

While it may take some time to overcome the reversal in income growth – marketing executives expect the economy to stagnate for the next two years – Turkey's high growth rate and rising urban population will keep domestic demand reasonably buoyant. The population is rising by about 2 per cent a year, by far the fastest growth rate in Europe. This makes Turkey a very young country, with a median age of 22 at the last census in 1990.

And since most of Turkey's consumer markets are far from maturity, growth rates are expected to remain high for years to come. Mr Karamercan says "in volume terms, paper products are growing 15 per cent per year against two per cent in a mature European market. Cosmetics are growing by 10 per cent, although from very low bases."

The country's young age profile means not only that products angled to the youth market will do well but that the Turkish market is more receptive to innovation than more mature ones. For instance, Migros, the supermarket chain, reports it had virtually no difficulty in introducing laser-scanners at its checkout counters, unlike some European markets.

Exclusive brands and labels have a greater appeal to consumers in Turkey than they would elsewhere, partly because of the market's youthfulness and partly because trade liberalisation is relatively recent, giving foreign brands special cachet. Ten years ago imported Nike running shoes were a luxury item.

Unfortunately this also means trade mark piracy is widespread in Turkey. Bootleg Levi jeans, counterfeit computer programs, even fake branded shampoos are widespread. Until now, Turkish authorities have paid little attention to an offence that is considered almost innocuous. However, adoption of EU intellectual property laws and pressure from western governments, notably the US, means enforcement of patent, copyright and trademark laws will probably become stricter in the future.

HOW ELECTRICITY CONSUMPTION IS RISING (Million kwh)

	Thermal	Hydro	Total
1991	37,563	22,683	60,246
1992	40,774	26,568	67,342
1993	39,857	33,951	73,808
1994	47,736	30,586	78,322
1995 (est)	52,548	31,973	84,521

Source: Teas

Perhaps almost as important as the growing youth market is Turkey's rapid rate of urbanisation. In 1965, most people lived in rural areas or in small towns. Now the figure is closer to one-third.

Turkey is undergoing huge population movements as peasants migrate to the great cities of western Turkey. Istanbul alone receives about 400,000 migrants a year. Although these people are invariably very poor, their incomes and consumption patterns in the city are greater than in the remote villages of Anatolia. This – together with the large underground economy – helps explain why electricity consumption rises relentlessly every year, despite the economy's dreadful performance.

Urbanisation should also speed social development and broaden the market. The Education Ministry says 21 per cent of the population is illiterate, but this should fall as fewer people live in the country where school attendance is low.

Urbanisation is also breaking up the extended family. Traditionally, parents, grandparents and children lived under the same roof. Now, Mr Berkman says, "households are dividing. This means more houses, more sales." As incomes rise, consumers will also start demanding new, more sophisticated products. For instance, fewer than half of Turkish households own a washing machine and just 13 per cent own a dish washer.

Even in areas where penetration rates are quite high, replacement sales are potentially very large. Arçelik, which claims nearly two-thirds of the Turkish white goods market, reckons that 98 per cent of the population owns a refrigerator. But, Mr Berkman says, "these are mainly old products, so there is a big potential replacement market".

Unfortunately the word "potential" crops up with depressing frequency. The consumer goods industry will only really flourish when the economy starts growing at a steady 7-10 per cent a year, allowing the mass market of low to middle income groups to expand.

This is an entirely feasible growth rate for Turkey. It would increase GDP by at least one-third and raise average incomes by almost a quarter in five years. However, even this would still leave incomes at about one-third of current Greek levels at the turn of the century when the population will be approaching 70m – in other words, Turkey will still be very much an emerging market well into the future.

■ TEXTILES

A great opportunity knocks

The customs union will boost textiles exports. But the advantage may be only shortlived

Textile manufacturers will be one of Turkey's main beneficiaries of customs union, now that the EU has swept away quotas on the country's most competitive industry. Europe is by far Turkey's most important market: in 1994, it took two-thirds of Turkey's \$6.4bn textile exports, most of it in ready to wear garments.

However, for Turkey to make the most of its access to Europe, companies must battle to increase value-added exports, since its edge as a low cost producer will probably be eroded within five to 10 years.

For the time being, Turkey's low cost advantage looks safe: according to a an industry report by Global Securities, an Istanbul brokerage, Turkish textile labour costs are about one-eighth of EU rates. This may still be two to three times more than Asian countries, but they do not enjoy Turkey's free access to the EU.

Although Turkish companies say EU quotas on 15 categories were never a serious obstacle – few quotas were fully taken up – the absence of any quantitative limits will now allow companies to increase capacity to meet EU demand.

Mr Adnan Baykal, of Şahinler, a big Istanbul textile and garment manufacturer, says "many new business will try exporting to Europe". The industry has spent heavily in the last 12 months to increase capacity ahead of customs union.

They are also expanding capacity to prepare for a big increase in domestic cotton production. Output is expected to increase rapidly in coming years as the huge \$32bn Great Anatolian Project (GAP) hydroelectric and irrigation project in southeastern Turkey begins increasing the country's cotton acreage.

Mr Baykal predicts that initially "Turkish competition will be in textiles and later move into making-up, because this is a large investment and technology game". He says the company's strategy is to move into higher value-added areas of the industry: "Design is the most important part of this business." Şahinler is also trying to develop brands both in Turkey and Germany.

His group is already involved from the basic spinning industry through textiles to garment-making to export and retail. Şahinler owns a retail company in Germany, its biggest foreign market that generates one-third of 1995 group revenues of DM1.2bn.

This trend should accelerate as European companies try to move their low-margin activities to low cost countries. A number of international companies have already contracted production to Turkish companies. Altinyildiz, Turkey's biggest textile group, makes Levis and Benetton garments. Non-EU companies should also increase investment in Turkey to gain free access to the European market.

> While textiles will do well, local clothing makers will be vulnerable to imports

However, local clothing companies are vulnerable to European import competition in the market's premium segments. EU clothing exporters previously faced a 10-25 per cent import barrier. In 1994 they provided two-thirds of Turkey's \$38.3m ready to wear imports.

Global's report states that "imports of ready to wear products from the EU [are] expected to increase substantially because 54 per cent of the Turkish population is under 28 and this generation represents strong potential demand for branded products". The Turkish textile industry also suffers from low productivity, poor quality and high energy and financial costs.

Customs union will have far-reaching effects on the industry's cost base. Turkey has adopted EU restrictions on imports of cheap textiles and apparel from third countries, mainly in Asia, that had previously enjoyed easy access.

Although the local textile industry will be relieved from formidable import competition, it will damage the apparel industry by reducing the supply of low-cost raw materials. However, both industries will suffer from the removal of a cotton export tax the government had imposed to discourage export of high-quality cotton.

Some companies will therefore suffer from customs union. Altinyildiz, for instance, was not affected by EU curbs but was a big importer of cheap Asian raw materials. It will also face rising import competition from EU garment makers as well as local companies.

Taking the heat

Continued from Page III

insists it will maintain its independence.

Companies will have to improve quality substantially, even though they have devoted considerable management resources to improving reliability and research and development. Mr Canevi says "there is a big margin for productivity and management improvement in this country".

However, there will be limits to the surge in competition. Perversely, Turkey's low incomes form a natural barrier to imports – few consumers can afford the higher prices of European producers. Turkish executives add that European cars and electrical appliances may not be robust enough to withstand Turkey's bad roads and uneven electricity current.

Imports will cut established companies' market shares but probably will take a long time to threaten their dominant positions. Unilever has been in Turkey for 50 years and Mr van Fontein says mounting a challenge will be expensive for a new competitor: "You have to be in the market long term. The major success factor is service and distribution and a manufacturing base."

However, Philip Morris and Toyota have both successfully set up networks from scratch. Philip Morris spent about \$20m to set up a nationwide sales network two years ago, a relatively modest part of its \$200m investment in Turkey. Furthermore, the rise of shopping malls will reduce distribution costs for new entrants.

Eastern rumblings as the gate opens

Continued from Page I

lence in southeastern Turkey. Only Refah, which has extensive grassroots networks in the slums, has shown much interest in the disaffected young population.

A second source of political instability is the 11 year Kurdish insurgency in the southeast, where an average of 10 to 20 soldiers, guerrillas and civilians die every day.

Settling the Kurdish issue would both reduce migration and deprive the country's feared security apparatus of its main raison d'être.

It would also help improve Turkey's much criticised human rights record. The Kurdish minority undoubtedly suffers persecution. Security courts still hold political trials. Police torture and brutality is widely reported.

Yet it is not too far-fetched to imagine that this turbulent country, so sharply divided between rich and poor, could transform itself into a modern European state ready for full EU membership. In the 1980s, under Turgut Ozal, the former prime minister, it developed rapidly both economically and socially. However, as efforts continue to broker a coherent coalition in government, Turkey still waits for confident leadership to take it towards full participation in Europe.

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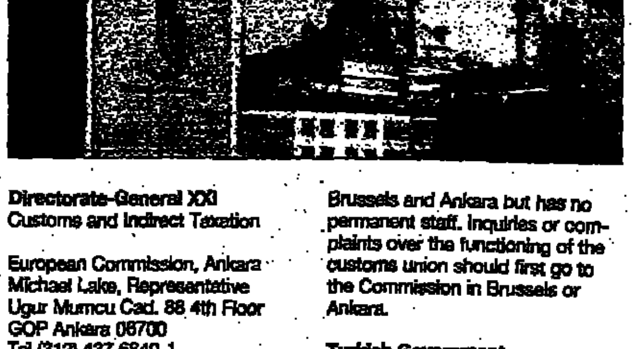

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Joint Customs Union Committee
- this body meets alternately in Brussels and Ankara but has no permanent staff. Inquiries or complaints over the functioning of the customs union should first go to the Commission in Brussels or Ankara.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jan 19		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.7100	-0.0186	990 - 209	15.7329	15.6598	15.6665	3.3	15.6225	2.2	-	-	108.0
Belgium	(BFr)	45.8739	-0.0921	285 - 193	45.9680	45.5420	45.7589	3.0	45.5539	2.8	44.7139	2.5	108.3
Denmark	(DKr)	8.6405	-0.0138	357 - 452	8.6574	8.6181	8.6266	1.9	8.6017	1.8	8.502	1.6	108.9
Finland	(FM)	6.7820	-0.0209	754 - 885	6.8040	6.7540	6.7776	0.8	6.7695	0.7	-	-	85.8
France	(FFr)	7.6254	-0.0263	202 - 306	7.6459	7.6079	7.6132	1.9	7.5923	1.7	7.5135	1.5	110.1
Germany	(DM)	2.2340	-0.0024	325 - 355	2.2385	2.2263	2.2287	2.8	2.2188	2.7	2.1753	2.6	110.3
Greece	(Dr)	367.052	-0.318	553 - 551	367.642	365.888	-	-	-	-	-	-	68.1
Ireland	(I£)	0.9638	-0.0006	629 - 646	0.9653	0.9609	0.9629	1.1	0.9615	1.0	0.9575	0.7	97.6
Italy	(L)	2394.07	-11.61	214 - 599	2402.84	2387.84	2401.02	-3.5	2414.17	-3.4	2469.07	-3.1	72.9
Luxembourg	(LFr)	45.8739	-0.0921	285 - 193	45.9680	45.5420	45.7589	3.0	45.5539	2.8	44.7139	2.5	108.3
Netherlands	(Fl)	2.5000	-0.0048	984 - 016	2.5059	2.4942	2.4933	3.2	2.4806	3.1	2.4299	2.8	108.4
Norway	(NKr)	9.7797	-0.0249	742 - 852	9.8228	9.7326	9.7696	1.2	9.7481	1.3	9.6669	1.2	96.1
Portugal	(Es)	231.016	-0.427	819 - 213	231.842	230.365	231.441	-2.2	232.346	-2.3	-	-	95.6
Spain	(Pta)	188.163	-0.583	040 - 286	188.916	187.614	188.648	-3.1	189.593	-3.0	193.818	-3.0	81.9
Sweden	(SKr)	10.1544	-0.0406	442 - 645	10.1932	10.1261	10.1563	-0.2	10.16	-0.2	10.1752	-0.2	87.9
Switzerland	(SFr)	1.8028	-0.0038	014 - 041	1.8076	1.7985	1.7957	4.7	1.7824	4.5	1.7263	4.2	114.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	82.8
Ecu	-	1.2100	-0.0005	093 - 107	1.2117	1.2036	1.2089	1.1	1.2067	1.1	1.1987	0.9	-
SDR†	-	1.039100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5098	-0.0115	092 - 104	1.5173	1.5080	-	-	-	-	-	-	-
Brazil	(R$)	1.4689	-0.0107	683 - 694	1.4756	1.4686	-	-	-	-	-	-	-
Canada	(C$)	2.0609	-0.013	598 - 619	2.0690	2.0553	2.0596	0.8	2.0586	0.8	2.0491	0.6	84.2
Mexico	(New Peso)	11.2080	-0.1827	967 - 192	11.3133	11.1967	-	-	-	-	-	-	-
USA	($)	1.5105	-0.0113	100 - 110	1.5179	1.5085	1.5094	0.9	1.5075	0.8	1.4977	0.8	95.7
Pacific/Middle East/Africa													
Australia	(A$)	2.0523	-0.006	502 - 544	2.0590	2.0436	2.0538	-0.9	2.0576	-1.0	2.0741	-1.1	88.2
Hong Kong	(HK$)	11.6778	-0.0873	732 - 824	11.7349	11.6630	11.6707	0.7	11.6626	0.5	11.6381	0.4	-
India	(Rs)	54.2194	-0.3904	789 - 600	54.4170	54.1700	-	-	-	-	-	-	-
Israel	(Shk)	4.7181	-0.0303	133 - 229	4.7399	4.7133	-	-	-	-	-	-	-
Japan	(Y)	159.094	-1.182	988 - 199	160.310	158.900	158.259	6.3	156.754	5.9	150.414	5.5	138.2
Malaysia	(M$)	3.8533	-0.0319	513 - 553	3.8734	3.8492	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2720	-0.0253	700 - 739	2.2861	2.2684	2.2740	-1.8	2.2819	-1.8	2.3061	-1.5	104.9
Philippines	(Peso)	39.5600	-0.3569	167 - 033	39.6033	39.5167	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6652	-0.0424	631 - 673	5.6927	5.6579	-	-	-	-	-	-	-
Singapore	(S$)	2.1480	-0.013	465 - 494	2.1550	2.1451	-	-	-	-	-	-	-
South Africa	(R)	5.5070	-0.0373	040 - 099	5.5274	5.5012	-	-	-	-	-	-	-
South Korea	(Won)	1193.14	-8.55	260 - 369	1198.53	1191.60	-	-	-	-	-	-	-
Taiwan	(T$)	41.4210	-0.3093	042 - 377	41.6178	41.3691	-	-	-	-	-	-	-
Thailand	(Bt)	38.2157	-0.2707	879 - 434	38.3950	38.1700	-	-	-	-	-	-	-

† Rates for Jan 18. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.4005	+0.0663	987 - 043	10.4110	10.3570	10.385	1.8	10.353	1.8	10.2305	1.6	106.1
Belgium	(BFr)	30.3700	+0.165	500 - 900	30.4500	30.1700	30.318	2.1	30.2175	2.0	29.855	1.7	108.1
Denmark	(DKr)	5.7203	+0.0334	190 - 215	5.7251	5.6974	5.7153	1.0	5.7058	1.0	5.7278	-0.1	108.2
Finland	(FM)	4.4899	+0.0196	870 - 927	4.5008	4.4856	4.4849	1.3	4.4762	1.2	4.4474	0.9	85.1
France	(FFr)	5.0485	+0.0202	465 - 500	5.0595	5.0350	5.0527	-1.0	5.0603	-1.0	5.0168	0.6	109.5
Germany	(DM)	1.4790	+0.0094	785 - 795	1.4805	1.4727	1.4768	1.9	1.4719	1.9	1.4525	1.8	109.9
Greece	(Dr)	243.000	+1.585	750 - 250	243.370	241.730	244.875	-8.3	247.925	-8.1	262.75	-8.1	65.8
Ireland	(I£)	1.5873	-0.0107	865 - 881	1.5743	1.5646	1.5677	-0.3	1.5682	-0.2	1.5643	0.2	-
Italy	(L)	1584.95	+4.14	420 - 570	1587.25	1581.30	1591.8	-5.2	1603.85	-4.8	1661.95	-4.9	72.3
Luxembourg	(LFr)	30.3700	+0.165	500 - 900	30.4500	30.1700	30.318	2.1	30.23	1.8	29.925	1.5	108.1
Netherlands	(Fl)	1.6551	+0.0092	546 - 556	1.6577	1.6479	1.6518	2.4	1.6455	2.3	1.6227	2.0	107.9
Norway	(NKr)	6.4745	+0.0317	730 - 760	6.4910	6.4305	6.4722	0.4	6.464	0.6	6.447	0.4	97.4
Portugal	(Es)	152.940	+0.855	880 - 020	153.130	152.460	153.315	-2.9	154.085	-3.0	157.69	-3.1	95.7
Spain	(Pta)	124.570	+0.555	530 - 610	124.830	124.250	124.965	-3.8	125.7	-3.6	129.19	-3.7	81.6
Sweden	(SKr)	6.7225	+0.0232	180 - 270	6.7428	6.6972	6.7396	-3.0	6.769	-2.8	6.9065	-2.7	87.3
Switzerland	(SFr)	1.1935	+0.0065	930 - 940	1.1943	1.1888	1.1897	3.8	1.1824	3.7	1.153	3.4	114.2
UK	(£)	1.5105	-0.0113	100 - 110	1.5179	1.5085	1.5094	0.9	1.5075	0.8	1.4977	0.8	82.5
Ecu	-	1.2484	-0.0089	480 - 487	1.2550	1.2471	1.2487	-0.3	1.249	-0.2	1.2497	-0.1	-
SDR†	-	0.68200	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-0.0001	995 - 996	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	0.9725	+0.0002	724 - 725	0.9728	0.9724	-	-	-	-	-	-	-
Canada	(C$)	1.3644	+0.0016	641 - 646	1.3646	1.3620	1.3646	-0.1	1.3647	-0.1	1.3697	-0.4	83.4
Mexico	(New Peso)	7.4200	-0.065	150 - 250	7.4300	7.4150	7.4223	-0.4	7.4254	-0.3	7.4303	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3587	+0.0063	578 - 596	1.3598	1.3565	1.3607	-1.8	1.3642	-1.6	1.3829	-1.8	87.4
Hong Kong	(HK$)	7.7311	+0.0001	306 - 316	7.7316	7.7306	7.7318	-0.1	7.7336	-0.1	7.7605	-0.4	-
India	(Rs)	35.8950	+0.01	800 - 100	35.9100	35.8800	36.045	-5.0	36.35	-5.1	37.82	-5.4	-
Israel	(Shk)	3.1236	+0.0033	214 - 257	3.1291	3.1214	-	-	-	-	-	-	-
Japan	(Y)	105.325	+0.025	290 - 360	105.970	105.290	104.86	5.3	104	5.0	100.57	4.5	136.1
Malaysia	(M$)	2.5510	-0.002	505 - 515	2.5560	2.5493	2.5519	-0.4	2.558	-1.1	2.5815	-1.2	-
New Zealand	(NZ$)	1.5040	-0.0054	033 - 049	1.5049	1.5033	1.5071	-2.5	1.5129	-2.4	1.5375	-2.2	-
Philippines	(Peso)	26.1900	-0.04	700 - 100	26.2100	26.1700	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	504 - 507	3.7507	3.7504	3.751	-0.1	3.7517	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4220	+0.002	215 - 225	1.4227	1.4200	1.4184	3.0	1.4124	2.7	1.387	2.5	-
South Africa	(R)	3.6458	+0.0025	450 - 465	3.6498	3.6445	3.6745	-9.5	3.728	-8.8	3.9493	-8.3	-
South Korea	(Won)	789.900	+0.25	800 - 000	790.000	789.000	792.9	-4.6	796.4	-3.3	814.9	-3.2	-
Taiwan	(T$)	27.4220	+0.001	200 - 240	27.4310	27.4200	27.442	-0.9	27.482	-0.9	-	-	-
Thailand	(Bt)	25.2000	+0.01	900 - 100	25.3200	25.2900	25.3987	-4.7	25.6025	-4.8	26.485	-4.7	-

† SDR rate per $ for Jan 18. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 18: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

January 19 — Over night, One month, Three mths, Six mths, One year, Lomb. inter., Dis. rate, Repo rate

Belgium, week ago, France, week ago, Germany, week ago, Ireland, week ago, Italy, week ago, Netherlands, week ago, Switzerland, week ago, US, week ago, Japan, week ago

[illegible]

■ $ LIBOR FT London Interbank Fixing; week ago; US Dollar CDs; week ago; ECU Linked Ds; week ago; SDR Linked Ds; week ago

[illegible]

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jan 19	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 19		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.84	16.82	4.870	2.102	5219	5.450	21.32	503.8	410.3	22.13	3.931	2.180	4.493	3.292	346.8	2.638
Denmark	(DKr)	53.09	10	8.825	2.586	1.116	2771	2.894	11.32	267.4	217.8	11.75	2.087	1.157	2.385	1.748	184.1	1.400
France	(FFr)	60.16	11.33	10	2.930	1.264	3140	3.279	12.82	303.0	246.8	13.31	2.365	1.311	2.703	1.980	208.7	1.587
Germany	(DM)	20.53	3.866	3.413	1	0.432	1072	1.119	4.377	103.4	84.24	4.543	0.807	0.448	0.923	0.676	71.22	0.542
Ireland	(I£)	47.58	8.963	7.910	2.317	1	2483	2.593	10.14	239.6	195.2	10.53	1.870	1.037	2.138	1.566	165.0	1.255
Italy	(L)	1.916	0.361	0.319	0.093	0.040	100.	0.104	0.408	9.649	7.861	0.424	0.075	0.042	0.086	0.063	6.646	0.051
Netherlands	(Fl)	18.35	3.458	3.050	0.894	0.386	957.6	1	3.912	92.40	75.28	4.060	0.721	0.400	0.824	0.604	63.64	0.484
Norway	(NKr)	46.91	8.835	7.797	2.284	0.986	2448	2.556	10	236.2	192.5	10.38	1.844	1.023	2.108	1.544	162.7	1.237
Portugal	(Es)	19.86	3.740	3.301	0.967	0.417	1036	1.082	4.233	100.	81.47	4.394	0.781	0.433	0.892	0.654	68.87	0.524
Spain	(Pta)	24.37	4.591	4.052	1.187	0.512	1272	1.328	5.196	122.7	100.	5.393	0.958	0.531	1.095	0.802	84.54	0.643
Sweden	(SKr)	45.19	8.512	7.512	2.201	0.950	2359	2.463	9.634	227.6	185.4	10	1.776	0.985	2.031	1.488	156.7	1.192
Switzerland	(SFr)	25.44	4.792	4.229	1.239	0.535	1328	1.387	5.424	128.1	104.4	5.630	1	0.555	1.143	0.837	88.24	0.671
UK	(£)	45.87	8.640	7.625	2.234	0.964	2394	2.500	9.779	231.0	188.2	10.15	1.803	1	2.061	1.510	159.1	1.210
Canada	(C$)	22.26	4.192	3.700	1.084	0.468	1162	1.213	4.745	112.1	91.31	4.925	0.875	0.485	1	0.733	77.20	0.587
US	($)	30.38	5.722	5.050	1.479	0.638	1585	1.656	6.476	153.0	124.6	6.722	1.194	0.662	1.365	1	105.4	0.801
Japan	(Y)	28.83	5.431	4.793	1.404	0.606	1505	1.571	6.146	145.2	118.3	6.380	1.133	0.629	1.295	0.949	100.	0.761
Ecu		37.91	7.140	6.302	1.846	0.797	1979	2.066	8.082	190.9	155.5	8.388	1.490	0.826	1.703	1.248	131.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.6806	0.6771	-0.0036	0.6811	0.6757	32,570	79,083
Jun	0.6830	0.6804	-0.0036	0.6832	0.6792	233	3,216
Sep	0.6828	0.6833	-0.0037	0.6828	0.6825	4	1,356

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.8461	0.8424	-0.0035	0.8465	0.8397	14,783	43,245
Jun	0.8522	0.8499	-0.0037	0.8522	0.8478	64	973
Sep	0.8582	0.8568	-0.0039	0.8585	0.8555	1	88

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.9550	0.9569	+0.0019	0.9575	0.9512	16,147	78,942
Jun	0.9678	0.9692	+0.0019	0.9689	0.9668	381	3,335
Sep	0.9768	0.9788	+0.0019	0.9790	0.9768	95	653

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.5164	1.5068	-0.0084	1.5176	1.5060	14,954	40,489
Jun	1.5080	1.5040	-0.0084	1.5080	1.5000	6	178
Sep	-	1.5008	-0.0084	-	1.4980	4	5

■ Pound in New York

Jan 19	— Close —	— Prev. close —
£ spot	1.5080	1.5175
1 mth	1.5069	1.5164
3 mth	1.5050	1.5146
1 yr	1.4950	1.5060

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on Companies and Finance page in Monday's edition.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
1.500	1.69	2.31	2.83	1.16	1.88	2.41
1.510	1.18	1.81	2.39	1.59	2.39	2.88
1.520	0.75	1.40	1.97	2.20	2.92	3.45
1.530	0.46	1.05	1.60	2.85	3.39	4.07
1.540	0.35	0.77	1.28	3.63	4.10	4.75
1.550	0.20	0.55	1.01	4.48	4.87	5.47

Previous day's vol., Calls 29,579 Puts 47,250. Prev. day's open int., Calls 140,584 Puts 18,319

UK INTEREST RATES

LONDON MONEY RATES

Jan 19	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5¼	6⅜ - 6⅛	6⅜ - 6¼	6⅜ - 6⅛	6¼ - 6⅛	6⅛ - 6
Sterling CDs	-	-	6⅛ - 6⅛	6¼ - 6⅛	6⅛ - 6⅛	6⅛ - 6
Treasury Bills	-	-	6⅛ - 6⅛	6⅛ - 6	-	-
Bank Bills	-	-	6⅛ - 6⅛	6⅛ - 6	[illegible]	-
Local authority deps.	6⅛ - 6⅛	6⅜ - 6⅛	6⅜ - 6⅛	6⅛ - 6	[illegible]	-
Discount Market deps	6½ - 5⅞	6⅛ - 6⅛	-	6⅛ - 6⅛	6¼ - 6⅛	6⅛ - 6

UK clearing bank base lending rate 6¼ per cent from January 18, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount 5.9868pc. ECGD fixed rate Stg. Export Finance. Make up day Dec 29, 1995. Agreed rate for period Jan 24, 1996 to Feb 25, 1996, Schemes II & III 7.82pc. Reference rate for period Dec 1, 1995 to Dec 29, 1995, Schemes IV & V 6.532pc. Finance House Base Rate 7pc from January 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Jan 19	Jan 12
Bills on offer	£800m	£1500m
Total of applications	£3315m	£3893m
Total allocated	£800m	£800m
Min. accepted bid	£98.500	£98.460
Allotment at min. level	53%	60%

	Jan 19	Jan 12
Top accepted rate	6.0154%	6.1769%
Ave. rate of discount	5.9868%	6.1863%
Average yield	6.0778%	6.2628%
Offer at next tender	£800m	£1500m
Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday January 17,1996	Increase or decrease for week
Liabilities	£	£
Capital	1,455,300	
Public deposits	1,271,988,937	-9,338,047
Bankers deposits	1,812,609,597	+83,583,208
Reserve and other accounts	3,218,539,329	+57,161,514
	6,317,690,863	+131,388,675
Assets		
Government securities	1,607,487,581	+505,875,000
Advance and other accounts	2,020,061,828	-2,153,894,058
Premise, equipment and other secs	2,683,377,375	+1,776,925,164
Notes	6,582,340	+2,496,817
Coin	201,739	-18,250
	6,317,690,863	+131,388,675
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	19,393,417,660	-392,496,817
Notes in Banking Department	6,582,340	+2,496,817
	19,400,000,000	-390,000,000
Assets		
Other Government securities	11,915,000,122	+722,196,960
Other Securities	7,484,999,878	-1,112,196,960
	19,400,000,000	-390,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.25	Royal Bk of Scotland	6.50
Allied Trust Bank	6.25	Exeter Bank Limited	7.50	●Singer & Friedlander	6.25
AIB Bank	6.25	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	TSB	6.50
Bank of Baroda	6.25	Girobank	6.25	United Bank of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Western Trust	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.50	●Hill Samuel	6.50		
Barclays Bank	6.25	C. Hoare & Co	6.25		
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Meghraj Bank Ltd	6.25		
Coutts & Co	6.25	Midland Bank	6.50		
Credit Lyonnais	6.25	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.50	NatWestminster	6.50		
		●Rea Brothers	6.75		

● Members of London Investment Banking Association
* In administration

FT GOLD MINES INDEX

	Jan 19	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2187.98	+14.3	54.59	100.00	1.56	-	2298.35	1637.91
■ Regional indices								
Africa (16)	2894.82	+15.3	15.57	28.53	3.15	30.31	3063.46	2272.74
Australasia (5)	2841.86	+11.5	5.78	10.58	2.15	41.29	2732.31	1769.20
North America (12)	1928.38	+14.5	33.24	60.89	0.70	57.59	1943.53	1348.18

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995/96 High	1995/96 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	23.2	126	115	Century Inns	116		-	-	-	-
-	F.P.	55.5	114	108	Cox Insurance	113		-	-	-	-
-	F.P.	14.6	60	52	†Crown Products	55		-	-	-	-
-	F.P.	13.7	90	72	†Dmatek	73		-	-	-	-
-	F.P.	25.6	88	73	Jupiter Split Cap	85½		-	-	-	-
-	F.P.	53.8	101	98	Jupiter Split Inc	98½		K7.24	-	9.2	-
-	F.P.	59.0	259	258	Jupiter Split Units	259		7.24	-	0.2	-
-	F.P.	9.08	¼	¼	†Mountcashel	¼		-	-	-	-
-	F.P.	0.13	8	8	†Nthn Prtm Wrts	8		-	-	-	-
-	F.P.	1.07	105	100	†Revelation P'dilly	100		-	-	-	-
-	F.P.	0.76	7½	6	†SkyePharma Wts	6¼		-	-	-	-
-	F.P.	4.05	135	125	†Viewinn	135		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.73	94.72	-	94.74	94.68	89,672	442,486
Jun	95.09	95.07	-0.01	95.10	95.03	114,207	445,306
Sep	95.21	95.20	-	95.23	95.16	72,021	274,240

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.25	95.24	-	95.25	95.19	1,439	8,781
Jun	95.53	95.51	-0.01	95.53	95.48	824	6,003
Sep	95.62	95.62	-	95.64	95.60	249	66

All Open interest figs. are for previous day

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995/96 High	1995/96 Low	Stock	Closing price p	+or-
28	Nil	27/2	1¼pm	1pm	Beco Hldgs	1pm	
225	Nil	1/2	28pm	20pm	Parsons	28pm	+2
48	Nil	15/2	9pm	5pm	Ransomes	7pm	
2½	Nil	24/1	2¾pm	1¼pm	SWP Group	1¼pm	
65	Nil	29/1	27pm	18pm	Seafield Res	25pm	-2
4	Nil	23/1	½pm	¼pm	†SkyePharma	½pm	
25	Nil	13/2	4pm	2pm	Sutcliffe Speakman	4pm	
150	Nil	19/1	34pm	20pm	Westbury	3pm	
14	Nil	28/2	¾pm	½pm	†Western Selection	¾pm	+1

pm premium.

UK GILTS PRICES

	Notes	Price £	W'k % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
15¼pc 1996‡‡		102⅜	-.1	1,150	Mr3 My3	27.9	1309
Exch 13¼pc 1996‡‡		102¼	-.1	800	Nv15 My15	9.10	1288
Conversion 10pc 1996		103⅛	0.1	3,409	My15 Nv15	9.10	1240
Treas 13¼pc 1997‡‡		107⅛xd	0.1	1,290	Jy22 Ja22	18.12	1302
Exch 10½pc 1997		104⅔	0.2	3,700	Au21 Fe21	17.7	1233
Treas Cnv 7pc 1997‡‡		101⅔	0.3	1,988	Fe6 Au6	30.6	4491
Treas 8¾pc 1997‡‡		104⅛	0.3	5,550	Mr1 Se1	28.7	1341
Exch 15pc 1997		114¼	0.3	830	Ap27 Oc27	20.9	1269
9¾pc 1998		106⅔xd	0.5	3,550	Jy19 Ja19	13.12	1273
Treas 7¼pc 1998‡‡		102⅛	0.6	8,150	Se30 Mr30	24.8	1788
Treas 6¾pc 1995-98‡‡		100⅛	—	1,200	My1 Ny1	25.9	1331
Treas 15½pc '98‡‡		122⅔	0.5	835	Mr30 Se30	24.8	1308
Exch 12pc 1998		114½	0.6	3,909	My20 Nv20	16.10	1259
Treas 9½pc 1999‡‡		108⅔	0.7	1,900	Jy15 Ja15	11.12	1347
Treas Fltg Rate 1999		100⅛	—	5,700	9JaSeDeMr	6.11	4945
Exch 12¼pc 1999		118½	0.8	3,050	Se26 Mr26	21.8	1264
Treas 10½pc 1999		112⅛	0.8	1,252	Nv19 My19	13.10	1288
Treas 6pc 1999‡‡		98⅞	0.8	8,600	Fe10 Au10	4.7	3635
Conversion 10¼pc 1999		112⅔	0.7	1,798	My22 Nv22	16.10	1342
Conv 9pc 2000‡‡		108⅔	0.8	5,358	Se3 Mr3	28.7	1244
Treas 13pc 2000		124⅜	0.7	3,171	Ja14 Jy14	8.12	1289
14pc 1998-1		116⅛	0.4	970	Nv22 My22	16.10	1306
Five to Fifteen Years							
Treas 8pc 2000‡‡		105¾	0.9	4,800	Ja7 De7	31.10	4948
10pc 2001		113⅔	1.0	4,406	Au26 Fe26	20.7	1280
7pc 2001‡‡		101⅛	1.2	7,750	My6 Nv6	2.10	3091
9¾pc 2002		114⅔	1.1	6,527	Fe27 Au27	21.7	1349
8pc 2003‡‡		105⅔	1.1	8,800	De10 Ja10	3.11	2010
10pc 2003		116⅞	1.1	2,503	Mr8 Se8	2.8	1281
Treas 11½pc 2001-4		119⅔	0.8	1,620	Se19 Mr19	14.8	1290
Funding 3½pc 1999-4		83¼	1.2	543	Ja14 Jy14	8.12	1274
Conversion 9½pc 2004		114⅛	1.2	3,412	Ap25 Oc25	18.9	1246
Treas 6¾pc 2004‡‡		96⅔	1.3	8,500	My26 Nv26	20.10	3541
Conv 9½pc 2005		114½	1.1	4,842	Oc18 Ap18	11.9	1247
Treas 12½pc 2003-5		131¼	0.9	2,200	My21 Nv21	16.10	1295
Treas 8½pc 2005‡‡		108⅔	1.1	8,900	Ja7 De7	31.10	4946
7½pc 2006‡‡		101½	1.2	6,000	Ja7 De7	31.10	1148
7¾pc 2006‡‡		103⅛	1.3	3,900	Mr8 Se8	2.8	2300
8pc 2002-6‡‡		104⅛	1.1	2,000	Ap5 Oc5	1.9	1334
Treas 11¾pc 2003-7		124⅔xd	1.0	3,150	Jy22 Ja22	18.12	1293
Treas 8½pc 2007‡‡		108⅛	1.2	7,397	Ja16 Jy16	11.12	1339
13½pc 2004-8		138⅛	0.9	1,250	Se26 Mr26	28.9	1301
Treas 9pc 2008‡‡		112⅛	1.1	5,621	Ap13 Oc13	6.9	1348
Treas 8pc 2009		104¼	1.2	3,450	Mr25 Se25	21.8	1338
Over Fifteen Years							
Treas 6 1/4pc 2010		89⅛	1.1	4,750	Mr25 Nv25	18.10	4632
Conv 9pc Ln 2011‡‡		112⅛	1.0	5,273	Jy12 Jy12	6.12	1245
Treas 9pc 2012‡‡		112⅞	1.1	5,360	Fe6 Au6	30.6	1701
Treas 5½pc 2008-12‡‡		82⅛	1.3	1,000	Mr10 Se10	4.8	1330
Treas 8pc 2013‡‡		103½	1.1	6,100	Mr27 Se27	21.8	2228
7¾pc 2012-15‡‡		101⅛xd	1.0	800	Jy26 Ja26	20.12	1332
8pc 2015		103½	1.1	8,500	Ja7 De7	31.10	4992
Treas 8¾pc 2017‡‡		110⅞	1.1	7,550	Fe25 Au25	19.7	1982
Exch 12pc 2013-17		140⅞	0.9	1,000	Ja12 De12	6.11	1260
Undated							
Consols 4pc		50⅝xd	1.4	359	Fe1 Au1	22.12	1238
War Loan 3½pc‡‡		45¼	1.4	1,909	Je1 De1	25.10	1352
Conv 3½pc '61 Aft.		62	0.8	115	Ap1 Oc1	25.8	1243
Treas 3pc '66 Aft.		37⅔	1.4	56	Ap5 Oc5	1.9	1324
Consols 2½pc		32½	1.4	276	5JaApJyOc	1.12	1239
Treas. 2½pc		31⅔	—	475	Ap1 Oc1	25.8	1315
Index-Linked (b)							
2pc '96	(67.9)	215⅛	0.2	1,200	Mr16 Se16	10.8	1313
4⅝pc '98‡‡	(135.6)	113⅛	0.3	800	Ap27 Oc27	20.9	1753
2½pc '01	(78.3)	179⅔	0.7	1,700	Mr24 Se24	18.8	1316
2½pc '03	(78.8)	176⅛	0.9	1,700	My20 Nv20	18.10	1317
4⅜pc '04‡‡	(135.6)	116⅔	0.9	1,000	Ap21 Oc21	14.9	1255
2pc '06	(69.5)	185¼xd	0.8	1,950	Ja19 Jy19	13.12	1314
2½pc '09	(78.8)	167¾	1.1	2,050	My20 Nv20	16.10	1318
2½pc '11	(74.6)	173⅛	1.0	2,350	Fe23 Au23	17.7	1319
2½pc '13	(89.2)	142⅔	1.0	2,750	Fe16 Au16	11.7	1320
2½pc '16	(81.6)	152¼xd	1.1	3,050	Ja26 Jy26	20.12	1321
2½pc '20	(83.0)	146	1.0	2,800	Ap16 Oc16	11.9	1322
2½pc '24‡‡	(97.7)	122	1.3	2,700	Ja17 Jy17	11.12	1323
4⅛pc '30‡‡	(135.1)	120¼xd	1.0	1,300	Ja16 Jy22	18.12	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for May 1995: 149.7 and for December 1995: 150.7.

Other Fixed Interest

	Notes	Price £	W'k % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009		119⅛	0.5	100	Mr24 Se24	[illegible]	-
[illegible] 11½pc 2012		127	0.8	45	My15 Nv15	13.10	1837
Ireland Cap 9½pc '10		105¼	—	303	Ap1 Oc1	-	1485
[illegible]		104	—	725	Ja30 Jy30	-	-
13pc '97-2		110⅔	—	315	Ap1 Oc1	[illegible]	1428
Hydro Quebec 15pc 2011		151⅞	0.4	40	My31 Nv30	[illegible]	-
Leeds 13½pc 2006		135⅝	0.4	49	Ap1 Oc1	8.9	3146
Liverpool 3½pc Irred.		40½	—	5	1JaApJyOc	1.9	-
LCC 3pc '20 Aft		35	1.4	28	1MrJeSeDe	28.1	-
Manchester 11½pc 2007		123¾	0.6	8	Ap25 Oc25	25.9	3275
Met. Wtr. 3pc 'B'		75	—	25	Mr1 Se1	1.8	3381
N'wide Anglia 3⅞pc 2021		141	-.4	60	Ja30 Jy30	23.6	3465
4⅛pc IL 2024		136	—	30	Au23 Fe23	17.7	-
Utd Mex States 16½pc 2008		123	0.8	58	Mr1 Se1	[illegible]	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	1995/96 High	1995/96 Low	Since comp. High	Since comp. Low
FT-SE 100	3748.40	3748.70	3704.20	3710.60	3682.70	3748.70	2954.20	3748.70	986.90
FT-SE Mid 250	4073.60	4058.20	4035.60	4037.50	4021.60	4089.10	3300.90	4182.80	1379.40
FT-SE Mid 250 ex ITs	4081.47	4065.01	4043.56	4046.22	4029.91	4092.84	3306.40	4180.70	1378.30
FT-SE-A 350	1858.60	1857.40	1837.90	1840.50	1820.20	1868.90	1482.40	1868.86	664.50
FT-SE SmallCap	1986.13	1980.22	1976.19	1976.29	1972.05	1999.11	1678.61	2096.09	1363.79
FT-SE SmallCap ex ITs	1961.20	1953.50	1946.98	1950.65	1946.85	1972.36	1658.18	2080.72	1363.79
FT-SE-A All-Share	1831.53	1829.71	1811.80	1814.04	1795.26	1831.59	1489.23	1831.93	61.92
FT-SE-A Fledgling	1128.20	1123.10	1121.31	1121.89	1120.37	1128.20	949.00	1128.20	949.00
FT-SE Eurotrack 100	1544.02	1537.43	1525.34	1522.85	1510.88	1544.02	1222.41	1544.02	906.45
FT-SE Eurotrack 200	1639.86	1633.89	1618.45	1617.53	1602.89	1639.86	1314.73	1639.86	938.92
FT Ordinary	2782.10	2773.60	2753.30	2760.70	2727.00	2773.60	2026.10	2773.60	49.40
FT Govt Securities	96.22	96.34	95.97	95.98	95.60	96.34	90.22	127.40	49.18
FT Fixed Interest	115.01	114.89	114.87	114.54	114.22	115.64	105.57	133.87	50.53
FT Gold Mines	2187.98	2176.87	2191.59	2165.91	2167.07	2297.80	1637.91	2387.40	922.16

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Allied Domecq	[illegible]	530xd	-.7	Q29.5	1.2	Feb Jul	4.12	1990
Bulmer (HP)	[illegible]	508xd	...	12.3	2.6	Feb Sep	8.1	2005
Burn St Dist	[illegible]	125	-3.8	5.0	0.9	May Nov	30.10	1518
Grand Met	[illegible]	452xd	1.8	14.9	1.9	Apr Oct	29.12	2769
Guinness	[illegible]	470	-2.8	14.1	2.3	Nov May	9.10	2791
Highland	[illegible]	328	-.6	7.9	2.7	Jan Jun	4.12	2880
Kirin Y	[illegible]	768½	6.5	Q20%	4.2	Mar Sep	–	1119
Macallan-Glen	[illegible]	178	-5.8	1.32	3.4	Nov May	2.10	3254
Macdon Martin A	[illegible]	635	1.6	10.9	3.3	Jan Jul	11.12	3267
Matthew Clark	[illegible]	678	-1.5	22.8	0.2	Apr Oct	31.7	2153
Merrydown	[illegible]	108	0.9	2.0	–	Jan Oct	11.12	3352
Seagram $		224½	5.7	Q60c	–	MrJuSeDe	3.93	–

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		58½xd	—	8%	–	Jun Dec	11.94	1797
Cater Allen	[illegible]	478	1.5	30.0	2.0	Jan Aug	11.12	2851
Close Bros	[illegible]	337	0.6	8.7	2.5	Apr Nov	9.10	2166
Gerrard & Nat	[illegible]	487	0.6	22.5	1.3	Jul Dec	13.11	2586
Hambros	[illegible]	200	-2.0	7.5	–	Aug Dec	27.11	2812
7½pc Cv Pf		102	...	7½%	–	Oct Apr	4.9	4388
Joseph (L)	[illegible]	453	...	18.75	1.6	Sep Jan	11.12	3069
King & Shaxson	[illegible]	148xd	-2.7	9.0	1.4	Jan Jul	22.12	3088
Rea Brothers	[illegible]	65	...	1.8	2.4	May Sep	14.8	3785
Schroders	[illegible]	1335	-1.3	14.17	5.1	May Oct	18.9	3939
N/V	[illegible]	1080	-2.8	14.17	5.1	May Oct	18.9	3941
Singer & Fried	[illegible]	102	-3.8	3.7	2.7	Nov Jan	25.9	4028
8½pc Cv Ln 09/14		£131½	-2.4	08½%	–	–	19.10	4845
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

BUILDING MATS. & MERCHANTS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Trans Periors	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tudor	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Universal Ceramic	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Waterhouse	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wolseley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INVESTMENT TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL, EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Astra B SKr	□	925	1.8	Q80%	4.9	May	5'93	–
Biota		132	24.5	–	–	–	–	–
Brit Biotech	□	1865	6.3	–	–	–	–	2819
Warrants		1385	11.0	–	–	–	–	4838
Cantab Pharms.	v	385	6.9	–	–	–	–	3448
Celltech	v□	665	4.7	–	–	–	–	3780
Chiroscience	v□	310	1.5	–	–	–	–	3885
Cortecs	v□	218	25.0	–	–	–	–	4885
Elan £	v	[illegible]	20.2	–	–	–	–	–
Glaxo Wellcome	v□	911½	4.4	38.8	1.6	Apr Oct	18.9	2701
Hafslund A NKr	□	218¾	4.7	Q88%	2.1	May	5'93	4785
B NKr	□	218¾	3.9	Q88%	2.1	May	5'93	4786
Huntingdon	v□	68	—	–	–	Jul	6'94	2845

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GRANADA GROUP PLC

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		234	—	Q478c	2.4	Oct Apr	3'93	–
Barlow		£10[illegible]	4.3	Q84c	ϕ	Jan Jul	11.12	–
Gold Flds Prop R		169	4.6	Q80c	2.1	Feb Sep	1'94	–
NK Props		93	1.1	Q67.1e	–	Feb Sep	10'93	–
SASOL		608	6.8	Q78c	–	Oct	9'93	–
SA Brews		£25¼	5.1	Q200c	2.1	Jun Dec	27.11	–
Standard Bank	□	£31[illegible]	2.4	Q284c	3.1	Sep Mar	–	–
Tiger Oats		1200	3.4	Q106c	ϕ	Jan Aug	11.12	–
Tongaat-Hulett	†	1241	7.6	Q110c	2.7	Jan Jun	4.12	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✝ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other offical estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. ia Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend includes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

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FT Share Service

The following changes have been made to the FT Share Information Service: **Additions:** Ottomane (Bank Rtl), Victrex (Chems), Unicorn Intl (Eng), Celtic Res (Ex Inds), Northern Prtfm, Rushmere Wynne (AIM). **Deletions:** Fine Decor (Hse Goods), Selective Assets Ord and Series I & II (Inv Tst), Genesis Chile Wrts (Inv Co's), Aran Energy (Oil Expl), Esselte (Pap, Pckg). .

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close January 19

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22⅛	12⅛	AAR	0.48	2.3	25	284	21½	20⅞	20⅞	-⅜
46¼	35	AMP	0.92	2.5	19	11286	37½	36¾	37⅛	-⅞
80¼	53⅜	AMR			29	5380	73	70⅞	72¼	+1½
47⅞	36⅜	ASA	1.71	4.0	28	1006	43⅛	42⅝	43	+⅜
44¾	30¾	AbbtL x	0.84	2.1	18	18876	39½	38⅞	39⅛	
18⅞	12	Abitibi Pr	0.40	2.6	7	1551	15¼	14⅞	15⅛	+¼
29½	21	ABM Ind x	0.70	2.5	15	60	28⅜	28⅛	28⅜	+¼
17½	13⅛	Acpincolo			10	104	14⅞	14½	14⅝	-⅛
40¼	21⅞	ACE Ltd	0.56	1.4	9	3333	u40¼	39⅝	40¼	+¾
9⅞	8⅛	ACM Gvt In	0.48	5.0	8	172	9⅝	9½	9⅝	
7¾	6½	ACM GvOpp	0.66	8.9		186	7½	7⅜	7⅜	
7½	5¾	ACM Gvt Sp	0.75	10.7		816	7	6⅞	7	
8¾	7¼	ACM Gvt Se	0.24	2.8		382	u8¾	8⅝	8⅝	
9½	7⅝	ACM Man	0.80	8.7		543	9¼	9	9¼	+⅛
29¼	10¼	AcmeCly	0.48	2.7	31	51	17¾	17⅜	17¾	
38¼	7⅞	Acme Elect			86	92	8	7⅞	8	
34½	23¾	Acordia	0.72	2.5	15	185	28¾	28⅝	28¾	+¼
16¾	10⅛	Acuson			38	1301	12¼	12⅛	12¼	
18⅝	15⅝	Adams Expr	0.36	1.9	0	292	18¾	18⅝	18¾	+⅛
38⅞	16⅛	AdvMic			6	8251	18¾	18¼	18⅝	-⅜
9¾	5	AdvestA Grp	0.16	1.7	13	429	9⅝	9	9½	+¾
27½	16½	Afwo Inc	0.10	0.5	22	2152	21	20⅛	21	+⅜
46¾	24.80	Aegon	1.28	2.8	17	24	45¼	45⅛	45¼	+½
5⅞	3⅜	Aerflx			6	88	3⅞	3½	3⅝	-⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

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[illegible]

- S -

[illegible]

Continued on next page

NYSE COMPOSITE PRICES

4 pm close January 19

continued from previous page

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
[illegible]	38⅝	SBC Cm x	1.65	3.0	18	6781	56⅞	55¼	55⅞	-⅜
[illegible]	20½	Scana Corp	1.44	5.2	17	1050	27⅞	27½	27⅝	-⅛
[illegible]	14½	Scecrp	1.00	5.6	10	12842	18⅛	17⅞	18	-⅛
[illegible]	5⅞	SchawkA	0.28	3.4	19	4	7¾	7¾	7¾	
[illegible]	37¼	SchererRP			22	868	44⅛	42⅝	42⅞	-1⅛
[illegible]	35½	SchrPl	1.16	2.2	19	10786	52⅝	51¼	52	
[illegible]	50⅛	Schlum	1.50	2.2	25	5172	67¾	67⅛	67½	-¼
[illegible]	11⅛	Schwab(C)	0.16	0.7	22	4683	22⅝	21½	22⅛	+1
[illegible]	20⅜	SchwMaud				744	24⅝	24	24	-⅜
[illegible]	11⅜	SciAtl	0.06	0.4	19	2040	14¾	13¾	14¼	+¼
[illegible]	15⅛	Scotman	0.10	0.6	11	21	17⅞	17¾	17⅞	
[illegible]	26⅞	Scripps	0.52	1.3	28	653	39	38⅝	38¾	-⅛
[illegible]	13⅜	ScuddrNAsF x	0.02	0.1		299	17⅝	17¼	17⅝	+⅛
[illegible]	8⅝	ScuddrNEnF	0.16	1.4		238	11¾	11½	11⅝	
[illegible]	13⅜	SeaCnB	0.70	4.2	1	55	16⅝	16⅝	16⅝	
[illegible]	14⅝	SeaC1.4625	1.46	9.4		6	15½	15½	15½	+⅛
[illegible]	23⅝	S'gate			9	10451	52¾	50⅛	52¾	+2⅝
[illegible]	25⅝	Seagrm	0.60	1.7	25	3400	36⅜	36⅛	36¼	-⅛
[illegible]	15¾	Seagull En			66	2018	18⅜	17¾	18	-⅜
[illegible]	18	Sealed Air			24	370	28⅛	27⅝	28⅛	+⅜
[illegible]	30⅜	SearsR	0.92	2.3	10	15753	40	38¾	40	+⅞
[illegible]	16⅜	SecCapStr	1.24	6.3	23	566	19⅞	19⅝	19¾	-⅛
[illegible]	10⅜	Seligm Sel x	0.84	6.7		96	12¾	12⅝	12⅝	-⅛
[illegible]	16¼	Sensormat	0.22	1.3	15	4898	17⅜	16⅞	17⅜	+⅜
[illegible]	21⅞	SequaA	0.60	1.8	15	7	33¾	33½	33⅝	-⅛
[illegible]	23	SequaB	0.50	1.2	21	6	40½	40½	40½	
[illegible]	28¼	ServCp x	0.44	1.0	24	3177	42¼	42	42	-⅜
[illegible]	21½	Svblstr x	0.96	3.2	14	563	30⅛	29¾	30	+⅜
[illegible]	4⅛	ServMerch			8	1022	4¾	4⅝	4¾	
[illegible]	22½	SGSThm			39	1578	33⅞	32⅝	32¾	+⅝
[illegible]	12	Shaw Ind	0.30	2.4	13	1179	12⅞	12⅜	12⅜	-⅜
[illegible]	7⅞	Shelby Wil	0.28	2.4	15	127	11¾	11½	11⅝	-⅝
[illegible]	64¼	ShellTr	2.86	3.7	16	628	78⅛	77¾	78⅛	+¼

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
17⅞	12½	Talley Pf	1.00	6.2		[illegible]				
53	37¾	Tambrds	1.76	3.5	21	[illegible]				
18¾	8⅝	Tandem			15	[illegible]				
64⅝	34⅛	Tandy	0.80	2.1	12	[illegible]				
10½	9	Tanne Mae x	0.88	8.6		[illegible]				
3	1¾	TCCInd			11	[illegible]				
28⅛	20	Teco Energ	1.06	4.1	17	[illegible]				
61⅞	31⅞	Tktrnx	0.60	1.4	16	[illegible]				
29¼	24¼	TeleDn	0.93	3.4	3	[illegible]				
27⅝	19¾	Teldyn	0.40	1.6	8	[illegible]				
44¾	33¼	TeleEspSA	1.29	2.9	16	[illegible]				
41½	23	Telmex	0.87	2.5	11	[illegible]				
55¾	38⅞	Tmplnl	1.20	3.0	8	[illegible]				
22⅛	16⅝	TemplEmMk	0.27	1.3		[illegible]				
7⅝	6¼	TempltGlob	0.60	8.0		[illegible]				
7⅞	6⅜	TempltGlFd x	0.60	8.1		[illegible]				
50⅜	41⅞	Tnneco	1.60	3.7	11	[illegible]				
37¼	25¼	Teppco Pts	2.80	8.0	10	[illegible]				
43	16	Teradyne			13	[illegible]				
7⅛	3⅛	Terex	0.08	1.5	1	[illegible]				
14⅞	9¾	Terra Inds	0.12	1.0	5	[illegible]				
12	7¼	Tesoro			3	[illegible]				
82	58¾	Texaco	3.20	4.1	17	[illegible]				
35¼	30⅛	Texas Ind	0.40	0.8	9	[illegible]				
83½	34½	Txlnst	0.68	1.4	9	[illegible]				
28¾	17	Texas Pac	0.40	1.5	21	[illegible]				
42⅛	30⅛	TxUtil	3.08	7.6	50	[illegible]				
3⅜	2⅛	Textl Inds	1.10	40.0	1	[illegible]				
78	48⅝	Textrn	1.56	2.1	14	[illegible]				
5⅝	3⅝	Thackeray			69	[illegible]				
18	13⅛	Thai Cap x	1.90	12.1		[illegible]				
28½	19¾	Thai Fund	0.07	0.3		[illegible]				
52	29.21	ThermoElec	0.12	0.3	30	[illegible]				
37⅛	25⅜	Thiokl	0.68	2.0	12	[illegible]				
78¾	62	ThBett	2.24	2.9	158	[illegible]				
24⅛	13⅝	Thomas Ind	0.40	1.9	18	[illegible]				

- U -

- V -

- W -

- X - Y - Z -

- T -

Price data supplied by Telekurs

FT Free Annual Reports Service

AMEX COMPOSITE PRICES

4 pm close January 19

NASDAQ NATIONAL MARKET

4 pm close January 19

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

FT GUIDE TO THE WEEK

MONDAY 22

Hashimoto speech to Diet

In his first policy speech to parliament since becoming Japan's new prime minister, Ryutaro Hashimoto is expected to attempt to justify the government's unpopular plan to spend at least Y685bn (£4bn) of public money on liquidating seven bankrupt housing loan companies. The new session of the Diet will also start deliberation on the budget for the 1996 financial year.

Roundtable on the Euro

The European Commission opens a conference (to Jan 24) in Brussels involving politicians, businessmen, financiers and the media in roundtable discussions aimed at finding ways to 'sell' the single currency to the public. Several hundred people will attend the event at the European Parliament. Separately, EU finance ministers hold their first meeting under the Italian presidency, at which there will be debates on the economic slowdown in Europe and on Italy's work programme for the next six months related to monetary union.

EU farm ministers meet

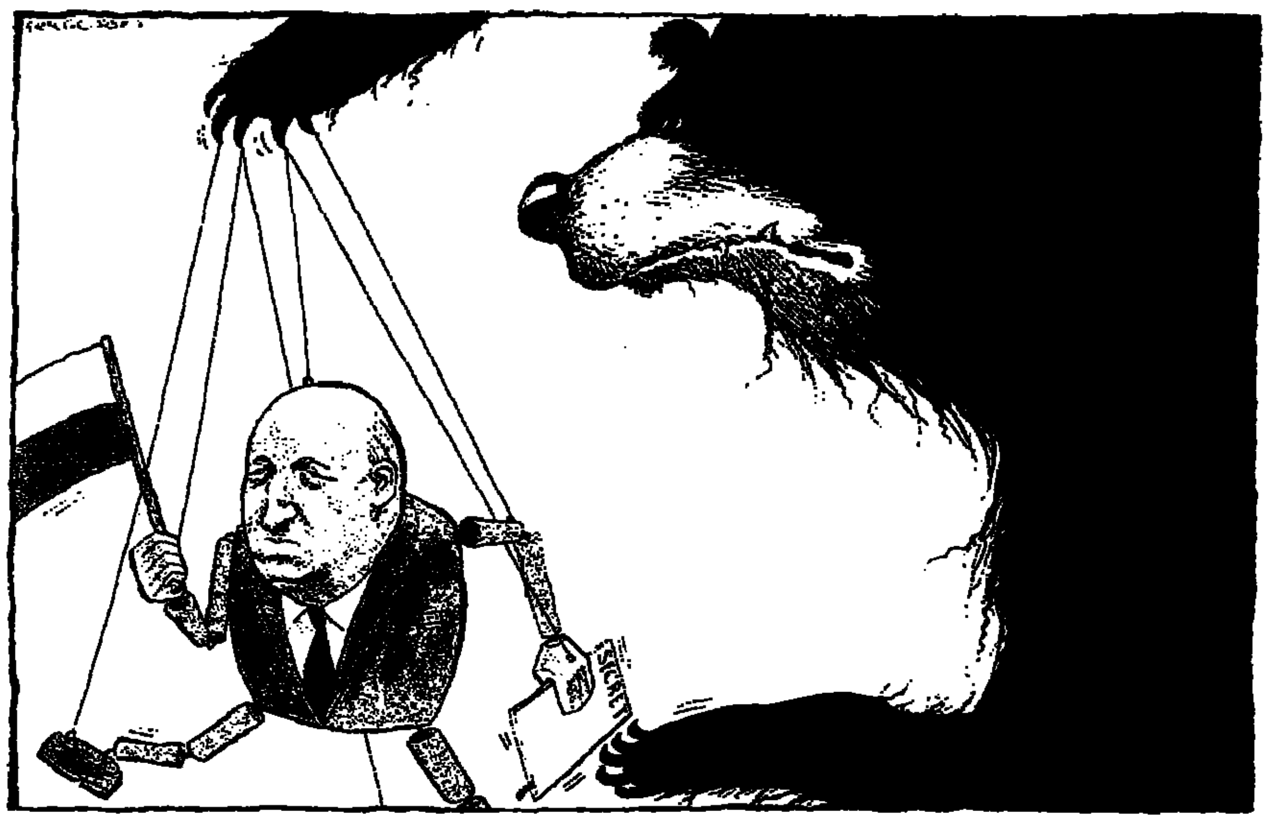
EU agriculture ministers meet in Brussels where they will hear a report from the European Commission on the operation of the internal banana market. Ministers will also begin tying up loose ends from the Spanish presidency – notably reform of the wine sector.

Greek cabinet sworn in

Greece's new cabinet is sworn in under Costas Simitis, the new prime minister. To preserve the unity of the governing Panhellenic Socialist Movement, Mr Simitis is expected to let his defeated rivals in last week's parliamentary vote – Akis Tsochatzopoulos and Gerasimos Arsenis – keep their jobs as public administration and defence ministers. However, the half-dozen members in the kitchen cabinet of Andreas Papandreou, Mr Simitis' predecessor who resigned because of ill-health, will be excluded.

Intergalactic dust

About 100 astronomers gather in Johannesburg to consider the holes in the universe, which are believed to conceal the secrets of creation. According to Professor David Block of the University of Witwatersrand, who has organised the conference, the origins of life are hidden in black rifts of interstellar space that divide the Milky Way and separate the stars. These empty patches are in fact clouds of cosmic dust, tiny grains with typical diameters less than one thousandth of a millimetre, which Prof Block says contain prebiotic molecules "needed as the primeval building blocks for life on earth".



The future of Poland's prime minister Jozef Oleksy, accused of being a Russian spy, hangs in the balance

Former spy faces extradition

Paul Grecian, the former MI5 spy wanted by US prosecutors for his role in supplying "supergun" parts to Iraqi leader Saddam Hussein, faces an extradition hearing in South Africa. The former director of the collapsed company Ordtech was detained in Johannesburg after arriving on holiday. He is wanted on charges of bank fraud, perjury and the illegal sale of artillery fuse components to Iraq. In 1992, Mr Grecian and his fellow directors were acquitted on appeal by a British court after disclosing MI5's involvement. In the US, Mr Grecian faces a possible 25-year prison sentence.

Beirut exchange reopens

Trading on the Beirut stock exchange resumes after 13 years. The exchange, which closed in 1983 during Lebanon's civil war, will trade initially in only a handful of stocks.

FT Survey

Turkey: The Customs Union with Europe.

Holidays

Barbados, Pakistan, Spain, St Vincent.

TUESDAY 23

Clinton addresses Congress

In his annual state of the union address to the US Congress, President Bill Clinton can be expected, in effect, to launch his re-election campaign by outlining his philosophical approach to the social and foreign policy challenges facing the country and placing his budgetary battles with the Republicans in that broader context. He will emphasise his commitment to preserving social safety nets such as Medicare and Medicaid plus the need to continue to invest in the environment and education – all Republican targets.

Whitbread Book of the Year

Having won Britain's Whitbread award for fiction – beating Pat Barker among others – Salman Rushdie battles it out for the prestigious Whitbread Book of the Year award (£21,000) with former home secretary Roy Jenkins (biographer of Gladstone), poet Bernard O'Donoghue, children's writer Michael Morpurgo and first-time novelist Kate Atkinson.

On Thursday, however, Mr Rushdie's *The Moor's Last Sigh*, trounced by Ms Barker's *The Ghost Road* in the Booker Prize for fiction, will be no threat in Britain's newest, and most lucrative, literary award – the £30,000 Orange Prize for Fiction, sponsored by the mobile telecommunications group. The prize is for women only.

Forte contest reaches climax

The bitterly fought £3.9bn contest for Forte, the UK's largest hotels company, reaches its climax on the closing date for Forte shareholders to accept Granada's hostile offer. The outcome is expected to be close but the odds are in favour of the higher offer being accepted.

Irish budget announced

A radical programme to tackle Ireland's problem of long-term unemployment – the highest in the European Union – is expected to be announced by its government, which is presenting its 1996 budget.

Kohl hosts unions talks

Chancellor Helmut Kohl hosts the seventh round of top-level talks between leading politicians, employers and trade unions aimed at counteracting unemployment levels in Germany which in December rose to 3.79m or just under 10 per cent of the workforce.

Fashion trial in Milan

Italian fashion gurus Giorgio Armani, Gianfranco Ferre and Krizia are among a larger group of designers, tax officials, businessmen and accountants going on trial in Milan on corruption charges. The designers are alleged to have bribed tax officials in return for favourable tax audits. It is expected it will be claimed in their defence that the money was extorted.

Rabin murder trial reopens

The trial of Yigal Amir, who assassinated the Israeli prime minister Yitzhak Rabin, reopens in Tel Aviv. Amir, a rightwing fanatic, says the murder was a protest against Rabin's returning of Israeli-occupied land to the Palestinians and that he was acting in the name of God. Although he has defended the killing, last week Amir said he only intended to paralyse Rabin.

Roche's 100th anniversary

Roche, the Swiss pharmaceuticals company which adds more than £2bn a year to its cash reserves, launches a year's celebrations of its 100th anniversary. Founded by the scion of an old Basle silk ribbon weaving family, Roche grew rich in the 1960s on profits from the sleeping pills Valium and Librium before falling on tougher times in the 1970s. Now it is back to full strength and the world's most valuable drugs company in stock market terms.

WEDNESDAY 24

Syria-Israel talks resume

Senior military officers will be present for the first time in eight months at peace talks between Syria and Israel, which resume near Washington. The officers will discuss security arrangements in the event of an Israeli withdrawal from the occupied Golan Heights. This round is expected to decide whether both sides are capable of reaching a peace agreement before Israeli general elections in October.

Irish peace process

The report on disarmament in Northern Ireland by George Mitchell, the former US senator, is released simultaneously in Belfast, London and Dublin. Mr Mitchell, who heads a panel set up to resolve the difficulty of the IRA's refusal to start disarming ahead of all-party talks, was appointed by the London and Dublin governments. The report was delayed for a week to allow for more consultations.

Golf

Phoenix Open at Scottsdale, Arizona (to Jan 27).

THURSDAY 25

Russia in Europe vote

The parliamentary assembly of the Council of Europe is likely to vote Russia in as the Strasbourg-based organisation's 39th member state, in spite of criticism of President Boris Yeltsin's military operation against hostage-holding Chechen rebels in southern Russia. Most of the 15 European Union governments are understood to be pressing for Russia to be admitted amid fears that a rebuff would lead to it reassessing policies towards the West.

FT Survey

FT500. Guide to the World's Top Companies by Market Capitalisation.

Holidays

Aruba, Nepal.

FRIDAY 26

Farrakhan in South Africa

Louis Farrakhan, head of the United States-based Nation of Islam nationalist movement, visits South Africa to meet religious and political figures. In October last year, Mr Farrakhan, notorious for statements attacking Jews and whites, led several hundred thousand black men in a peaceful rally in Washington to promote black self-reliance.

US government threat

The third US government shutdown in two months threatens, with the expiration of the latest temporary funding measure.

Mastering Management

M The FT's 20-part series continues in the UK edition with part 12. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XE, UK. Tel: +44 181 770 9772. Fax: +44 181 643 7330.

FT Survey

Quarterly Review of Personal Finance (including special reports on Tessas and retirement planning) in the UK edition.

Holidays

Australia, Dominican Republic, India, Uganda.

SATURDAY 27

Spy crisis in Poland

Amid allegations that Jozef Oleksy, the Polish prime minister, is a Russian spy, a government reshuffle is likely to be demanded at a meeting of the leaders of his SdRP party.

If its senior coalition partner fails to conduct a reshuffle, the Polish Peasant Party may be tempted into opposition. Several other unnamed leaders of the SdRP, the former communist party, are also alleged to be Russian agents.

The meeting was to have chosen a successor to Aleksander Kwasniewski, who resigned as the SdRP's leader after winning the Polish presidency. However, the election is likely to be postponed because Mr Oleksy was the favourite to replace him.

FT Survey

Quarterly Review of Personal Finance (including special reports on Tessas and retirement planning) in the UK edition.

Holidays

Monaco.

SUNDAY 28

Talks on Okinawa-US bases

Okinawa prefectural assembly members leave Japan for the United States to plead for fewer US bases in Okinawa. Anti-US opinion was inflamed last year by the alleged rape of an Okinawa schoolgirl by three US servicemen. Resolution of this issue is seen as crucial to US security policy in Asia – Okinawa is where it maintains its biggest military presence.

American football

Tempe, Arizona: 30th American football Super Bowl pits the favoured Dallas Cowboys against the Pittsburgh Steelers.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: Figures on the UK's gross domestic product are expected to show that the economy grew by about 0.4 per cent in the final quarter of last year, the same as in the previous quarter. Spanish consumer price inflation is forecast to have slowed in November.

Tuesday: Economists expect UK M4 money supply to have accelerated further last month. Canadian consumer price inflation is thought to have fallen last month while retail sales are expected to have risen.

Wednesday: US economic figures are expected to show stronger growth in industrial production last month but capacity utilisation is forecast to have remained unchanged.

Thursday: Dutch gross domestic product is thought to have grown by an annual rate of 2.5 per cent in the third quarter of last year, slightly higher than growth in the second quarter.

Friday: Japanese consumer prices are thought to have fallen this month. Japanese consumer spending is thought to have risen in the year to November. France's trade balance is forecast to have risen in November. Canadian industry prices are thought to have risen last month.

Statistics to be released this week

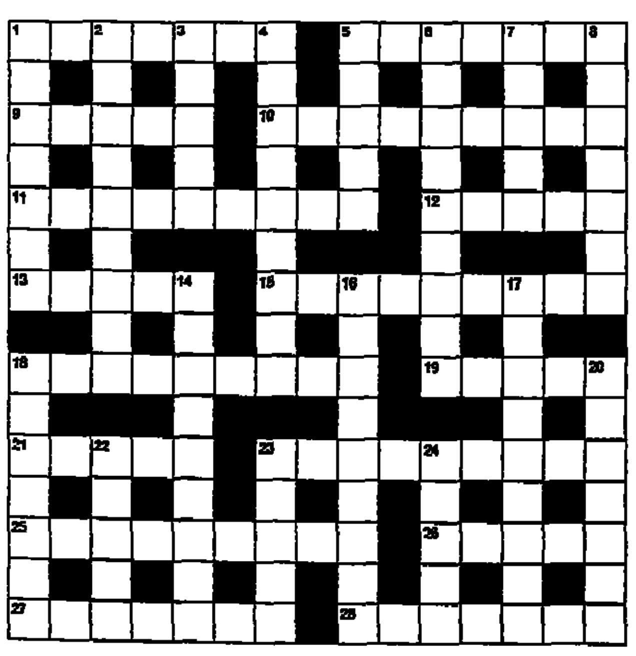
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Nov wholesale trade	-	-0.4%
Jan 22	France	Dec consumer price indx final*	0.1%	0.1%
	France	Dec consumer price indx final**	2.1%	2.1%
	UK	4th qtr gross domestic product***	0.4%	0.4%
	UK	4th qtr gross domestic product**	1.8%	2.1%
	Spain	Nov producer price indx*	0.2%	-0.2%
	Spain	Nov producer price indx**	5.4%	5.9%
Tues	US	Nov personal income	0.2%	0.3% est
Jan 23	US	Nov personal consumer expend	0.6%	0.1% est
	US	Johnson Redbook Jan 20	-	-0.9%
	Japan	Dec trade balance (customs clrd)	$11.4bn	$13.0bn
	UK	Dec M4*	0.5%	1.0%
	UK	Dec M4**	9.5%	9.3%
	UK	Dec M4 lending	£4.3bn	£3.4bn
	UK	Dec bdg scty net new commitments	£2.6bn	£3.2bn
	Canada	Dec consumer price indx, all items*	0.1%	0.2%
	Canada	Nov retail sales*†	0.2%	-0.7%
Wed	US	Dec industrial production	0.3%	0.2%
Jan 24	US	Dec capacity utilisation	83.1%	83.1%
	US	Nov new home sales	675,000	673,000
	US	Nov home completions	-	1.3m
	UK	Dec trade ex-EC	-£825m	-£496m
	Spain	Nov industrial production**	3.5%	3.4%
	Canada	Nov wholesale trade*†	0.3%	-1.9%
	Aus'lia	4th qtr consumer price indx**	5.1%	5.1%
Thur	US	Dec existing home sales	-	4.04m
Jan 25	US	Initial claims w/e Jan 20	375,000	-
	France	Dec household consumption*†	-1.4%	4.4%
	Italy	Dec hourly wages	4.1%	3.9%
	N'lands	3rd qtr gross domestic prod final**	2.5%	2.4%
Fri	Japan	Jan consumer price indx, Tokyo**	-0.6%	-0.5%
Jan 26	Japan	Dec consumer price indx, nation**	-0.4%	-0.7%
	Japan	Ditto ex-perishables**	-	0.1%
	Japan	Nov overall pers consumer expend**	0.6%	-1.7%
	Japan	Nov pers cons'r expend (workers)**	-	-1.8%
	Japan	Nov income (workers)**	-	2.7%
	France	Nov trade balance†	FFr6.5bn	FFr5.9bn
	Canada	Dec industrial prod price indx*	0.3%	0.3%
During the week...				
	Germany	Dec Icon consumer climate	-	87.0
	Germany	Jan prelim cost of living, West*	0.3%	0.2%
	Germany	Jan prelim cost of living, West**	1.6%	1.4%
	Germany	Dec import prices*	0.3%	0.1%
	Germany	Dec import prices**	-0.8%	-0.6%
	Italy	Dec balance of payments	-	-L3.1Tr
	Italy	Dec forex reserves	L89.5Tr	L87.2Tr
	Italy	Dec M2 3-month average	1.9%	1.7%
	Italy	Dec total bank lending	3.4%	3.3%
	Italy	Nov trade balance (pay)	-	L2.9Tr

*month on month, **year on year, ***qtr on qtr, †seas/adj *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD
No.8,973 Set by CINCINNUS

ACROSS
1 After ten read about ridiculous pretence (7)
5 Others following little devil to get money advanced (7)
9 Row about black river (5)
10 Religious belief – French wine is still around (9)
11 Doctor is a dealer in dogs (9)
12 Benefit that makes a small number suffer (5)
13 Electronic data interchange can transmit installed order (5)
15 Obstacle to soft drink salesman (9)
18 Highly rated? Sure! (9)
19 Animals carrying North Americans (5)
21 Astray on the ocean (2,3)
23 One in Venetian settlement in Laos (9)
25 A decade, if inclusive, invigorates (9)
26 Language the French can read (5)
27 Seeking engraving (7)
28 Site of the Taj Mahal seen in faint illustration (7)

DOWN
1 Salt – salt turns up in name (7)
2 Fruit's taken in in inn (9)
3 Biting little piece of chocolate with dry exterior (5)
4 Arthur's brand name (9)
5 Does no work in part and so gets paid less (5)
6 Collecting stamps from a Greek letter not long ago (9)
7 Heath – one Conservative leader in an epoch (5)
8 Office worker, household god and monastic knight (7)
14 Conductor of opera rising in encore (9)
16 Compensated – with new clothes? (9)
17 Throw out a sort of kebab in Yorkshire (9)
18 Craft, if employed in trade (7)
20 I left terminus, breaking a bone (7)
22 Country bearing unsubstantial rise (5)
23 Competing for some heavy ingots (5)
24 A slattern turning up in Oklahoma (5)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday February 1, marked Monday Crossword 8,973 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday February 5. Please allow 28 days for delivery of prizes.

Name...

Address...

Winners 8,961

H.A. Cleave, Crediton, Devon
C.S. Brassington, Rugby, Warwicks
K.N. Kneller, Callow Hill, Redditch
J. Mauds, London SW
M.J. Pastison, Yeovil, Somerset
M. Thomas, Beechen Cliff, Bath

Solution 8,961

OPENNESS CHARGE
DIGIT EQUITABLE
ANATOMIST HOIST
IDEALS EXHUMED
EARFLAP PLACID
ROOST GOODLOSER
[illegible]